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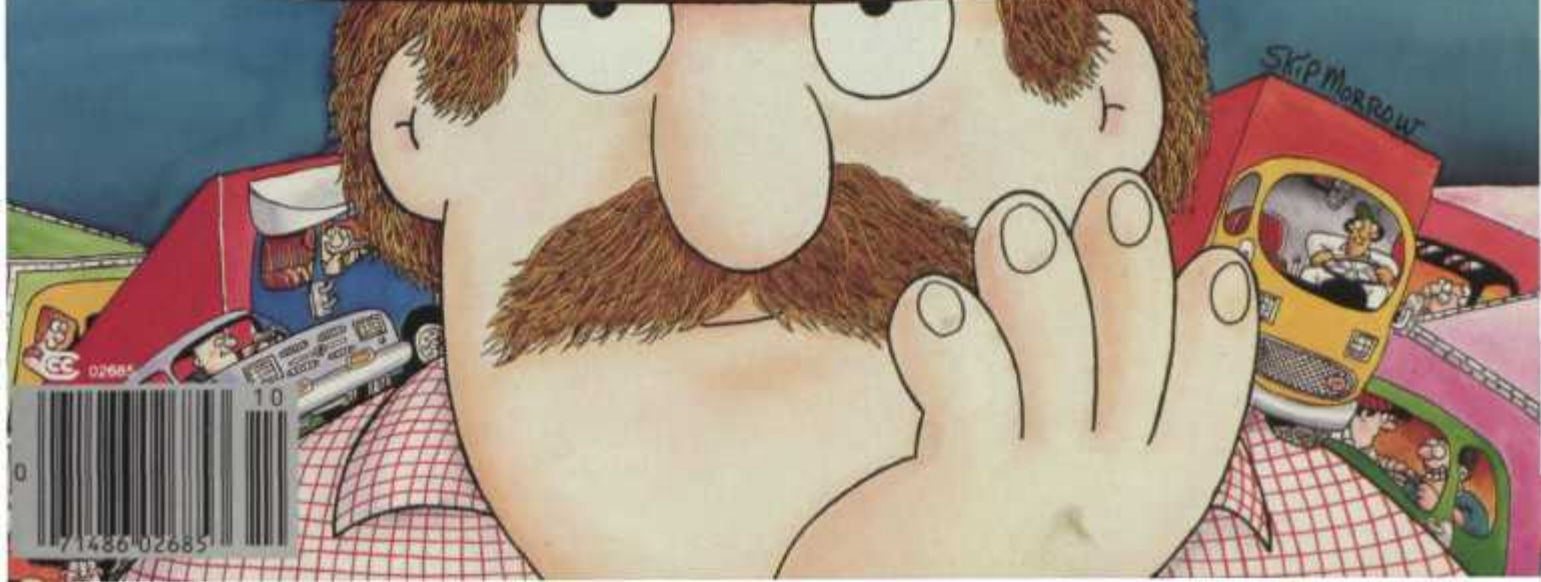
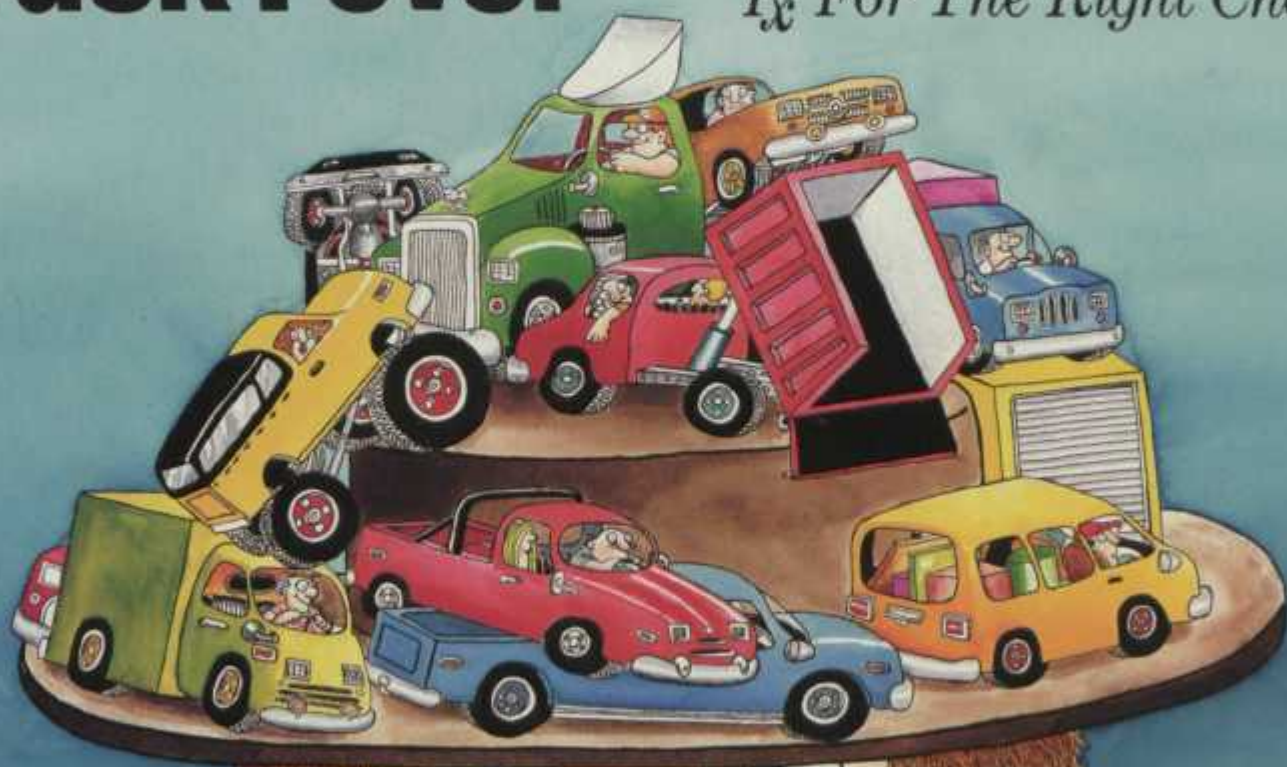
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## MANAGING YOUR BUSINESS

*The motor-vehicle industry has been picked up by a buyers' rush to trucks. Page 14.*

*Franchise ownership makes their day. Page 33.*



PHOTO: CLARK—B&H MEDIA INC.

### 14 Truck Fever

Business people and consumers are opting for trucks instead of cars because of changing ways of living and doing business. The company truck is doing double duty as a workhorse and a hobby horse—and sales are way up.

- 16 *Think Beyond Purchase Price*
- 18 *The 1988 Nation's Business Buyers' Guide—Light Trucks*
- 20 *Medium And Heavy Trucks*

### 28 Preparing For The Worst

Most small-business insurance plans do not account for AIDS and other catastrophic illnesses. Is yours ready if an employee catches a costly disease?

### 33 Franchised Independence

A *Nation's Business* special report on franchising: Entrepreneurial thrills without flying solo—as long as you do your homework.

Cover Illustration: Skip Morrow

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PHOTO: ROBERT HOLMGREN

### 45 The Family Business

An estimated 80 to 95 percent of U.S. businesses are family-owned, and they contribute about 50 percent of the gross national product. *Nation's Business* introduces this periodic section about these vital enterprises. It is dedicated to healthy families and healthy family businesses.

### 68 Hiring The Best

Before you interview anybody, consider what kind of job you are trying to fill. Then ask the right questions.

### 74 Do You Need An Ad Agency?

Even very small firms can use an agency, but they have to choose with care to find the right match and get the best service.

### 84 The Plant-Closing Issue

Organized labor wants a law requiring companies to give advance notice of plant closings. Opponents argue that workers would be the chief victims.

### 89 American Handstand

Running show business like a real business isn't easy. Dick Clark just makes it look that way.

## DEPARTMENTS

*The plains of North Dakota have been fruitful for Douglas Burgum and his Great Plains Software. Making It, Page 77.*



PHOTO: CHUCK KNEYSE—BLACK STAR

### 4 Commentary

### 5 Letters

### 9 The Nation's Business

- 9 *Business Outlook*
- 10 *Small Business Report*
- 12 *Washington Roundup*

### 77 Making It

### 79 Direct Line

### 80 Editorial

### 81 Congressional Alert

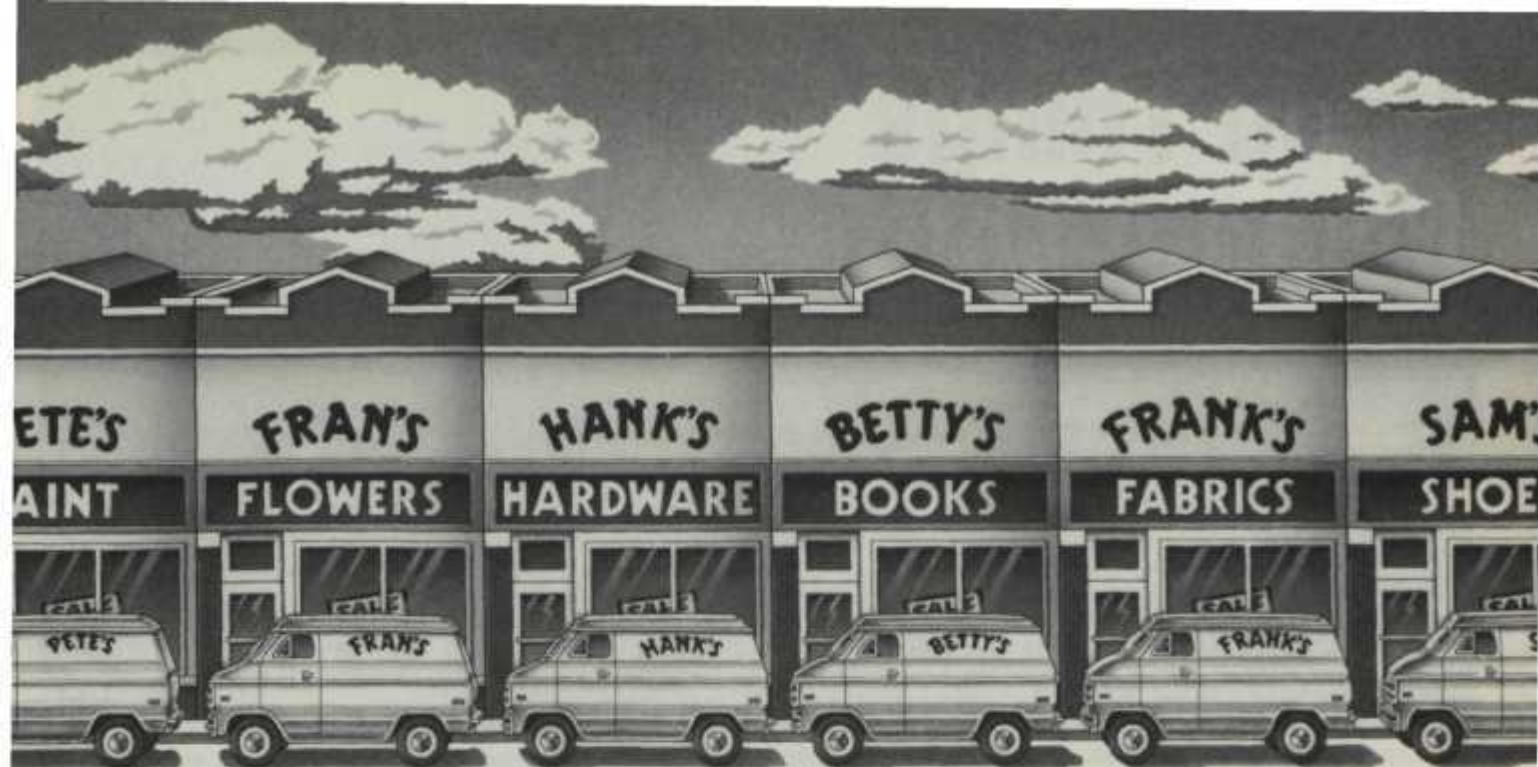
### 82 Classified Ads

### 85 Where I Stand

### 86 Personal Management

- 86 *It's Your Money*
- 87 *To Your Health*
- 88 *For Your Tax File*





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# Little Things Mean A Lot

By Sharon Nelton

I was sitting in a staff meeting not long ago, wearing a new red dress that brightened my business wardrobe and my spirits when suddenly its belt fell apart, the ends drooping from the belt loops.

The belt was a pretty thing, made of black patent leather and dress fabric. Trouble is, the patent leather had pulled away from the fabric, and there was no easy way to glue it together again and be reliably belted.

Just a minor detail? Well, lack of attention to detail makes me mad. As a writer, I know that the best story idea in the world won't work if it is not well

executed, with detail upon detail to bring the material to life. And you probably know from your own experience that if you're being quoted, you want to be quoted accurately. If your name is Smyth, you can get pretty teed off when it appears in print as Smith. Those are details, too.

As a consumer, I find that lack of attention to detail on the part of businesses of all kinds costs me time and money and frazzles my nerves. In the end, I feel ill will toward a company that does me wrong.

The little red dress was on sale. I'd paid about \$70 for it, and I'd have gladly paid a few dollars more if that meant having a belt I could count on. Now I had several choices, all inconvenient and time-consuming. I could return the dress to the store, I could complain to the manufacturer, or, since none of the belts I owned matched the dress, I could buy a new belt.

I still liked the dress, so I decided to keep it. Since the label bore no address for the manufacturer, I gave up the idea of writing a complaint letter or making a phone call.

Instead, I bought a new belt at a cost of \$15, meaning my once on-sale dress was no longer much of a bargain.

Why is it that people in business so often show inadequate respect for detail when it can make or break what they do?

I could write about clothing manufacturers all day. Another belt gripe I have is belts with slip-through buckles—that is, buckles that look like buckles but that lack the eyelet that holds the prong that keeps the belt fastened.

Countless dress companies seem to think women don't laugh or sneeze. The minute you take a deep breath in one of

these belts, it pops open. Pretty embarrassing if you're making a presentation to a potential customer. (It's not in a class, however, with the split zipper that American tennis player Tim Wilkison endured in front of the whole world at Wimbledon last summer. Wonder what he thought of the shorts manufacturer.)

Cosmetics are another sore point. I'd give my left eyelashes for containers that didn't wear out long before what they contain is gone. Often a pressed-powder compact or eye shadow container will break even when it is still nearly full.

What about instructions? And the operation of equipment? Recently I paid my local supermarket \$16.99 to rent a large steam-cleaning machine for carpets and, for an additional \$20, purchased the detergents the machine's manufacturer said I would need. The leaflet that told how to operate the equipment not only omitted important information (such as how to get water out of an irremovable tank), it made light of the difficulty of certain steps. It did say I might have to try several

times to couple the hose to the machine. It neither warned that this was in fact a difficult procedure nor showed how to do it, and I got water all over myself and the floor before I finally succeeded.

Even worse, the directions were printed in minuscule letters in pale orange ink—nearly impossible to read. I decided that next time, I'll hire professionals and hope they will be detail-oriented enough to do the job as I want it done.

Sometimes lack of attention to detail and the attitude that goes with it can lose a pricey sale. I wanted to buy a new car last year and I knew exactly the model and the options that I wanted. But I kept running into salesmen who sold cars the old-fashioned way, turning it into a game of win-lose negotiation. Instead of quoting me a price to start the bargaining, they asked me what price I wanted to pay and then scoffed when I responded.

But they never would come up with a firm price of their own. Nor could they tell me when a car might be available or if it would be available in a color I could live with. After I made a return visit to one dealer, the salesman told me he couldn't continue to waste his time on me, implying I wasn't a serious buyer. But he still wouldn't quote a firm price of his own.

He had forgotten one detail: respect for the customer. I went down the street and bought a different make from a straightforward, polite salesman and took it home the same day.

When I part with my hard-earned cash, I want the people on the other side of the transaction to treat me with respect. And I don't want to have to tighten the buttons on blouses before I wear them or resew a loose hem.

I have the same responsibility to respect my customers—my readers—by producing articles that are as interesting, informative, clearly written and accurate as I can make them.

There are days when I wonder why I spend so much time making sure a comma is in the right place or a word is precise in conveying intent. But attention to detail is what my customers expect. And it's what they deserve. How about yours? **■**



*I find that lack of attention to detail on the part of businesses of all kinds costs me time and money and frazzles my nerves.*





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# Letters

## The Thief Within

I compliment you on your excellent article "To Stop A Thief" [June].

Working for a large corporation for 22 years, I was well aware of thievery going on about me. But not until I read your article was I aware of the extent of it on all levels. My eyes were really opened.

It is reassuring to have people in management who care enough to confront this problem with understanding and solutions. The sooner employee theft is controlled, the sooner businesses and consumers will profit.

*Susan Melms  
Cudahy, Wis.*

Employee dishonesty is something all businesses should be concerned about. Smaller ones are especially vulnerable to damage from employee dishonesty.

As with most risks, the risk of embezzlement or employee theft can be insured against. Such protection is inexpensive and simple to obtain. My company currently protects roughly 20,000 enterprises with dishonesty bonds, and we expect the number to keep growing.

*Joe P. Kirby  
President and CEO  
Western Surety Company  
Sioux Falls, S.D.*

As a follow-up to your cover piece on theft, you received a letter from a man from Waterbed Gallery [Letters, August].

He had thefts of \$175,000. Then he put in a considerable security system and reduced the losses to "1 percent"—presumably of the annual sales of \$16 million. So the new level of thefts is about \$160,000. The cost of the security system has to be more than \$15,000. Where is the savings?

*John G. Kneiling  
New York*

I wonder if the individual in charge of Waterbed Gallery ever heard of behavior modification and the idea of positive reinforcement to combat the theft problem rather than Gestapo tactics. Why not reward employees with a percentage of any reduction in thefts over the

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previous year's figures and reduce bonuses by a percentage of any increase? This will give employees some control over their own destinies, will increase their perceptions of self-worth and thereby will increase productivity.

*E. R. Werthamer  
Baltimore*

## A Democratic Work Ethic

Your cover package, "Finding The Ethical Edge," [August] placed emphasis on the CEO as the architect of a company's code of ethics. I have another suggestion.

Since the view of what's ethical can vary from region to region, company to company or even within one organization, having only one source for developing a code could be dangerous. A business should solicit input from all those with a stake in the company (employees, management and the board of directors and shareholders) so that its code reflects the total company.

In this bicentennial year of celebration, why not take a page from history

when establishing a code of ethics? Two hundred years ago a delegation worked effectively as a team to establish one of the greatest ethical codes extant: the U.S. Constitution.

*Steven J. Maranville  
Provo, Utah*

How telling that your reader [Letters, April] points out that most business majors also take "nonbusiness electives such as philosophy, ethics and art." Any society that considers ethics a non-business subject has only itself to blame when things go bad.

*Willis G. Groth  
Bakersfield, Calif.*

## Illustrated Mythology

I got quite a laugh from the graphic labeled "Cow Tipping In Oklahoma At Dawn" ["Graphics Come Of Age," June].

The story has it that because cows sleep standing up, you can sneak up next to them in the night and push them right over. As a farm boy in a

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## COMMENTARY

## Letters

large urban college, I spent many an hour trying to convince my city-bred friends that the sport of cow tipping was only a myth.

*John D. Fenley  
Philadelphia*

**Developing AIDS Policies**

Ira Singer's article ["AIDS In The Workplace," August] does a good job of raising and discussing some of the AIDS-related issues that may directly affect the business world.

As suggested in the article, companies should develop written policies to govern their handling of AIDS cases among their employees.

As scientific knowledge about the disease advances, and the courts and legislatures address attendant legal questions, these policies should be revised accordingly.

*Leo Uzych  
Wallingford, Pa.*

**One-Sided Printing**

Your story headlined "Printing Franchises: Quick, Growing" [July] is so one-sided that it should be an embarrassment to you. What you have is a

collection of quotes from print-shop franchisors boasting how they will bury the small, independent commercial printers.

Hogwash! Have McDonald's and Burger King buried the small, service-oriented restaurants in America?

To hear the franchisors talk, all small commercial printers are technologically deficient business people sleeping at their presses. Not so. Many sharp print-shop owners stay profitable and are at the leading edge of innovation. In fact, many quick-print franchisors have come from the ranks of small commercial printers.

*Don Johnson  
Owner  
Johnson's Quickprint & Graphics  
Hancock, Mich.*

**Mandated Leave**

I was amazed to read the complaints and fears of the U.S. Chamber of Commerce and small businesses about the proposed mandated-leave law ["Mandated Leave: Small Firms' Nightmare," August]. It isn't enough to just look at the bottom line. People are what make businesses work; we can't just throw

them out because they are sick or injured.

From the small-business point of view, this legislation could create a real opportunity. Even though there aren't now enough temporary firms to meet the projected demand in number and type of employees, you can bet the house that America's entrepreneurs will be there to provide the needed workers.

If we can defuse the issue, we can turn it to our advantage. Too often we wait to act until after the government mandates action. We need the foresight to plan for the futures of our organizations.

*Don L. Peterson  
Provo, Utah*

There are some definite advantages to granting extended leaves, especially for larger companies.

Temporary workers can be hired where feasible. The temporary worker typically receives no benefits—including unemployment compensation—from the hiring company.

For a position that cannot be filled by a temp, an in-house staffer could be temporarily promoted. For example, a supervisor could fill in for a manager. This would allow the person filling in to gain valuable experience and would also enable the company to assess the employee's ability to perform in a more responsible position without the commitment of a permanent promotion.

Should the employee on leave not return for some reason, the company would already have someone qualified and ready to step into the open position.

*Teresa L. Sutter  
Sacramento, Calif.*

**Minimum-Wage Pros And Cons**

I note that 84 percent of your subscribers think the minimum should not be raised [Where I Stand, June].

Yet the July 17 issue of "Research Recommendations" issued by the National Institute of Business Management in New York includes a survey of 590 CEOs which shows an average salary of \$590,000, up 25 percent since 1984! Wouldn't it be too bad if the poor working slob on the bottom rung of the ladder got a similar increase? I suggest that the minimum wage be tied to a percentage of the average CEO's pay.

*John Vermazen  
Manchester, Iowa*

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## COMMENTARY

### Letters

business person [Letters, August]. The writer advocates distributing "income more equitably among the people of the United States."

I dropped out of high school in the 10th grade and went to work. It didn't take me long to decide that I wanted something other than (notice I didn't say *more* than) a paycheck every week. I have run my own business for the past 13 years, and it is exactly what I needed. I don't feel cheated because I make less than a vice president at General Motors, nor do I feel compelled to share what I earn with someone who doesn't want to work toward earning more.

The idea of working for what you want shouldn't die to buy a few votes for bleeding-heart liberals.

*Stephen C. Brown*  
*Inverness, Fla.*

I read "A Liberal Looks At The Minimum" [Letters, July]. The writer considers it her moral duty and a noble task to raise labor income. But the tradeoff is terrible!

When government raises production costs through ever-higher minimum wages, higher payroll taxes and other job-related benefits, it denies work to millions of young and old workers and racial minorities.

If liberals ever learn the simple economic lesson that political force cannot improve working and living conditions, the age of unemployment will pass.

*Robert D. Helmholtz*  
*Fort Lauderdale, Fla.*

I find it amazing that your "liberal" can be so careless about businesses and so considerate of young or uneducated workers.

Why is it a small-business owner's responsibility to support an inexperienced, partially educated student so that he or she may prosper and move on to a higher paying job elsewhere?

I certainly enjoy the large number of students and young workers I employ, and I am happy to provide them with experience and training so they can better themselves.

Isn't that the way it is supposed to work and not the other way around—paying high wages for less-qualified employees?

*Michele J. McGuinness*  
*Naperville, Ill.*

### Limit Congressional Terms?

You prescribe changing to a two-year budget cycle as a means of reducing

special-interest pressures on Congress [Editorials, July].

The budget problem is merely a symptom of a more serious disorder: a nonfunctioning government. Too many government officials are more concerned about their political aspirations than about the welfare of the country. Astronomical sums are spent on campaigns, with a new election planned as soon as one is completed. Perhaps it is time to limit all members of Congress to one term only. This approach should drastically reduce the influence of special-interest groups and encourage decisions based on business acumen rather than vote-getting appeal.

*William C. Parrish*  
*Odessa, Wash.*

### In Defense Of MSG

Your article "Penetrating The Mystery Of Migraine" [To Your Health, July] has come to our attention. We are particularly concerned about the statement that monosodium glutamate (MSG) may trigger migraines.

Some research has identified a transient feeling of pressure in the temples alleged to result from a response to MSG—usually when ingested at unusually high levels by a susceptible few. We are unaware of any research indicating that MSG dilates or constricts blood vessels, a condition often associated with headaches.

Monosodium glutamate has been thoroughly tested in more than 600 studies and has been reviewed by numerous regulatory and scientific organizations, including the U.S. Food and Drug Administration and the World Health Organization. Through such research the safety of MSG has been clearly affirmed.

*Julie M. Wilgus*  
*Staff Associate*  
*Glutamate Association*  
*of the United States*  
*Atlanta*

### Respect For Your Elders

When looking into the future of their businesses, perhaps corporations—large and small—should focus on the overall effect of shifting and replacing older executives who are made to feel unwanted and inadequate after years of service. It is a national shame that companies do not show the same respect to exiting senior executives as they do to young ones just beginning their careers.

*Joni Levesque*  
*Hampton, N.H.*



# The Nation's Business

By Joan C. Szabo

## Business Outlook

### Optimism Still Prevails

Positive indicators continue to dominate as the record recovery nears the five-year mark, and economists remain generally optimistic about its continuation into 1988.

That does not mean there aren't problems, such as the recent gyrations in the stock market and inflationary threats.

But, reports the Institute of Business Forecasting in Flushing, N.Y.: "The average forecast among financial economists is for continued GNP growth through late 1988."

That type of optimism is based on such developments as the latest employment figures, which show more Americans than ever before—113 million—had jobs in August.

Consumer spending, which had lagged during the summer, was improving with the arrival of the last quarter of the year. Retailers had been seriously concerned about a late-summer downturn, but that has improved.

The Bureau of Labor Statistics also noted that the number of jobless workers fell to 7.2 million, a 7½-year low. At the same time, the Conference Board, a private organization that conducts research on business and economics, reported that its latest help-wanted index had hit 158, up 18 points from a year ago. The index, with a 1967 base of 100, is developed from an analysis of help-wanted ads. The Conference Board said it saw no evidence of a slowing in the growth of job openings.

The tightening job market has been a principal factor among the actual or threatened inflationary pressures that prompted the Federal Reserve Board to raise the discount rate from 5½ to 6 percent in early September.

The increase in the rate the Fed charges on loans to its member banks immediately spurred boosts in home mortgage and some consumer loans. The central bank's strategy is to peg interest rates at a point that dampens inflationary activity without damaging

*Economists welcomed Alan Greenspan's first major policy move as the new chairman of the Federal Reserve.*



PHOTO: LARRY DOWNING—ROGEEF W. CAMP

the basic economy. The early-September break in the stock market was also a reflection of renewed concern about inflation, which, in turn, is an outgrowth of the continuing success of the recovery. As a result, some analysts question the extent to which the current market is an accurate barometer of economic trends.

They suggested that the Fed's action be viewed as a reassuring one, not as a signal of trouble. The strategy of moving early with relatively modest steps to combat an inflationary threat is, at least in part, a legacy of the late 1970s and early 1980s when inflation ran so much out of control that it took a major recession, engineered by the Fed, to bring it down to acceptable levels.

### Greenspan's Debut Draws Raves

Any lingering business concern that Alan Greenspan, the new chairman of the Federal Reserve Board, would not be as aggressive as his predecessor vanished with the board's recent decision to raise the discount rate.

Greenspan took over the chairmanship from Paul Volcker, who had established a solid reputation as a no-holds-barred opponent of inflation, and there had been some initial concern that Greenspan was willing and able to sustain that battle.

Some observers saw Volcker, who had been appointed Fed chairman by President Carter and was reappointed by President Reagan, as a highly committed professional unaffected by political considerations.

On the other hand, some critics of the Greenspan appointment saw political portents in it. They noted that he was chairman of the Council of Economic Advisers under President Ford and was a conservative economist highly regarded by the Reagan White House. Those critics suggested that he might be willing to trim Fed policies to the needs of the administration.

During his confirmation hearings, questions were raised about whether he would favor easy money policies to keep the economy booming through the 1988 presidential election even if the price was increased inflation.

The Federal Reserve Board's early-September decision to raise the discount rate for the first time in nearly 3½ years put an end to such talk.

The boost from 5½ to 6 percent was particularly dramatic because it came less than a month after Greenspan took office. Alan Sinai, chief economist of Shearson Lehman Brothers, said the action "clearly suggests that Greenspan is concerned about inflation and is an inflation fighter."

Michael Evans, who heads an economic-forecasting firm in Washington, said events had shown that Greenspan had been getting "a bum rap" from those who suggested he would follow a stimulative course for political reasons.

None of the experts suggested, however, that the half-point increase in the discount rate was necessarily the last of the board's current offense against inflation and defense of the dollar.

One reason for the announced rate boost was the dollar's continuing fall, which makes imports more expensive. That situation encourages prices of domestic goods to move up, establishing a double inflationary impact.

Higher interest rates make the dollar more attractive to overseas investors,



## Business Outlook

and the Fed hopes that the American currency will stabilize as a result of the Fed's decision to boost the discount rate.

### Same Data, Two Results

Although the number of employed rose to a record in August and the ranks of the jobless dropped to a 7½-year low,

the unemployment rate remained the same as it was in the previous month—6 percent.

That statistical quirk developed because the 354,000-person drop in the ranks of the jobless was virtually offset by an increase of 351,000 in the labor force, which consists of all individuals working or actively looking for employment. ■

## Small Business Report

*IRS processing centers, such as this one in Memphis, would be deluged with requests for filing extensions at their busiest time of the year if the new tax law is not amended.*



PHOTO: BEN ALEXANDER—FOLIO

### Preserving Fiscal Years

A legislative push is under way to permit partnerships and S corporations to retain their established fiscal years for tax purposes, instead of switching to a calendar year as required by the Tax Reform Act of 1986.

Bills introduced in both the House and the Senate would amend the new tax law to allow these firms to retain their fiscal years. To qualify, partners and owners would have to increase their estimated-tax payments. Those payments would be based on a percentage of the prior year's income.

The sponsors of the legislation, Senators Max Baucus (D-Mont.) and John Heinz (R-Pa.) and Rep. Ronnie Flippo (D-Ala.), say the measure would not result in a loss of revenue to Uncle Sam.

Without enactment of the legislation, a number of small firms face a mountain of paperwork. For example, many small-business owners would be required to close their books twice and file two sets of both federal and state tax returns for 1987.

In addition, accountants fear a filing

bottleneck will develop if tax reform is not amended.

The accountants say it would be difficult, if not impossible, for taxpayers and preparers to complete all the necessary business returns in sufficient time to allow partners and shareholders to file by April 15.

That situation would give rise to still another paperwork deluge—a substantial increase in the number of taxpayers

filing for extensions, adding to the work load of the Internal Revenue Service at its busiest time of the year.

"We believe it is in the public interest to retain staggered tax-return filing deadlines," says Herbert J. Lerner, chairman of the Tax Division of the American Institute of Certified Public Accountants. "The IRS, taxpayer and tax practitioners will be better able to meet filing requirements if the deadlines are spread out over a year."

### New Public-Private Program

The Small Business Administration and Control Data Corporation plan a joint pilot program to help improve the management of minority-owned smaller firms.

The aim is to provide educational and practical training to firms eligible for SBA's 7(j) program.

Under 7(j), SBA extends financial, technical and management assistance to entrepreneurs who lack access to such help because of financial or other reasons. The SBA says that, in the vast majority of such cases, these individuals are members of minority groups.

To acquaint potential participants with the new program, kickoff seminars are planned for a number of cities.

For more information, contact Milton Wilson at SBA's Minority Small Business & Capital Ownership Development Office at (202) 653-6475.

### Health-Benefits Bill For Smalls

Legislation designed to encourage wider health coverage for self-employed individuals and their employees was recently introduced by Rep. John J. LaFalce (D-N.Y.), chairman of the House Small Business Committee. The bill would allow the self-employed to



**Thinking about going public?** A new publication from Price Waterhouse could be helpful. It explains the pros and cons of such a step, the disclosure requirements and what you have to do to carry out the process.

The 75-page paperback, *Taking Your Company Public*, also describes the changes that come with being a public company and alternative ways of raising equity capital.

**Just off the presses:** *Estate Planning Made Easy* from TAB Books in Summit, Pa. The 160-page guide written by Herbert F. Starr covers such matters as living trusts, buy-sell agreements, state and inheritance taxes, pre-death gifts, incorporation, partnerships and other aspects of personal-estate planning.





## **You don't have to be an immigrant to be affected by the New Immigration Law.**

It doesn't matter who you are or where you came from.

If you start your first job or if you change to a new one, there's a simple procedure you and your employer need to follow. Even if you are an American citizen.

It's an easy, one-page form called the I-9 that you and your employer fill out together. As an employee, you complete the top portion. Then you show documents such as a state driver's license to establish your identity, an original Social Security Number Card to establish your right to work, or a U.S. Passport or Alien Registration Card to establish both at once.

Many other documents are also acceptable.

After checking that your documents appear to be genuine and relate to you, your employer signs the form and keeps it on file. It's that simple. In addition, employers may not fire or fail to hire anyone based on foreign name, appearance or accent.

The New Immigration Law is intended to preserve jobs in the United States for those individuals who are legally entitled to them. If you'd like more information on what to expect, call toll-free: 1 (800) 777-7700. Help make the New Immigration Law a success. Working for a better America is everyone's job.



**Working for a Better America  
Immigration and Naturalization Service**

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## Small Business Report

deduct the full cost of health insurance for themselves and their families, provided they offer comparable benefits to their employees.

The bill is designed to correct a tax-code provision that discourages the self-employed, primarily sole proprietors and partners, from offering health insurance to their employees, says LaFalce.

Until passage of tax reform, unincorporated businesses' health-insurance costs were fully taxable.

But tax reform provides relief only for three years to ease the impact on revenues. It allows the self-employed to deduct only 25 percent of family health-insurance payments—and then only as long as they offer similar benefits to their employees. ■

## Washington Roundup

### President Acts On Privatization

President Reagan has taken steps to implement his campaign for a major expansion of privatization—the process through which suitable government activities are shifted to the private sector.

The campaign is based on his belief that private enterprise can perform more efficiently and economically than government agencies in providing goods and services to the government itself or to the public.

To move in that direction, the President has:

- Named a 13-member commission to draft a privatization plan that will recommend specific government programs that can be turned over to the private sector;

- Appointed Ronald D. Utt, who has been deputy chief economist of the U.S. Chamber of Commerce, to a new, high-level position in which he will oversee the privatization program.

An intensification of the privatization program was a key element in the "Economic Bill of Rights," which the President announced in a major address on July 3. In announcing creation of the commission, he said:

"The commission will help fulfill the commitment I made in my Economic Bill of Rights to end unfair government competition and return government programs and assets to the American people. . . . There are many activities that are not the proper function of the federal government and that should simply be left to the private sector. The American people know that, in many cases, the government is less effective than private enterprise in providing certain services."

David Linowes, a political economist at the University of Illinois, was named

*Rep. Bill Richardson (D-N.M.) is a key backer of a product-liability reform bill that is gaining support in the House.*



PHOTO: T. MICHAEL KEZA

chairman of the panel and said he would start work on the assignment immediately.

Utt, who will have the rank of an assistant director of the Office of Management and Budget, is a leading private-sector authority on the subject.

Privatization is of particular interest to smaller businesses, which have the capability and flexibility to take over the responsibility for providing many types of goods and services. They include janitorial, food-service, security and information-processing possibilities.

### Reforming Product Liability

Legislation to reform the nation's product-liability laws is making some headway on Capitol Hill. H.R. 1115, introduced by Rep. Bill Richardson (D-N.M.), is expected to clear the House Energy and Commerce Committee.

It has strong business support, including that of the U.S. Chamber of Commerce, which has long played a leading role in the drive for liability reform. Passage of the bill would repre-

sent a step toward a key goal of product-liability reform—basing damages on fault, rather than ability to pay.

The measure would raise the standard of proof required to award punitive damages and would limit double recovery of damages.

It would also put limits on the doctrine of joint and several liability, under which one of several parties found responsible for damages can be required to pay the full amount, regardless of the degree of fault, if the other parties are financially unable to do so.

Critics of that doctrine have long argued that it distorts the tort system by basing responsibility on ability to pay, rather than on fault.

Several business organizations have formed a coalition known as the Product Liability Coordinating Committee to work for passage of an acceptable reform bill.

One of the goals of the coalition is the adoption of a national uniform product liability law so that businesses will be able to operate under one clear-cut system rather than under the many, often-conflicting codes of individual states.

### Coalition Opposes Bennett Bill

A business coalition says that legislation to regulate defense contractors' profits could actually weaken national security.

The bill introduced by Rep. Charles E. Bennett (D-Fla.), a senior member of the House Armed Services Committee, would require the Defense Department to review the profits of its largest contractors and determine if they are "excessive." It would also impose an unlimited burden of audits and reviews on contractors' nongovernment business records.

More than 40 trade associations and companies have joined forces in opposition to the measure.

An official of one of the coalition member organizations warned of the potential impact of the measure.

Albert D. Bourland, vice president for congressional relations for the U.S. Chamber of Commerce, says: "This misguided effort will serve only to reduce our nation's ability to produce technology essential for national security and drive many commercial businesses out of the government markets."

Opponents express concern that smaller subcontractors would be among the firms hardest hit by the bill. ■



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# Truck Fever

By Julie Candler

Change From 1982

## Sales Trends: Trucks Vs. Cars

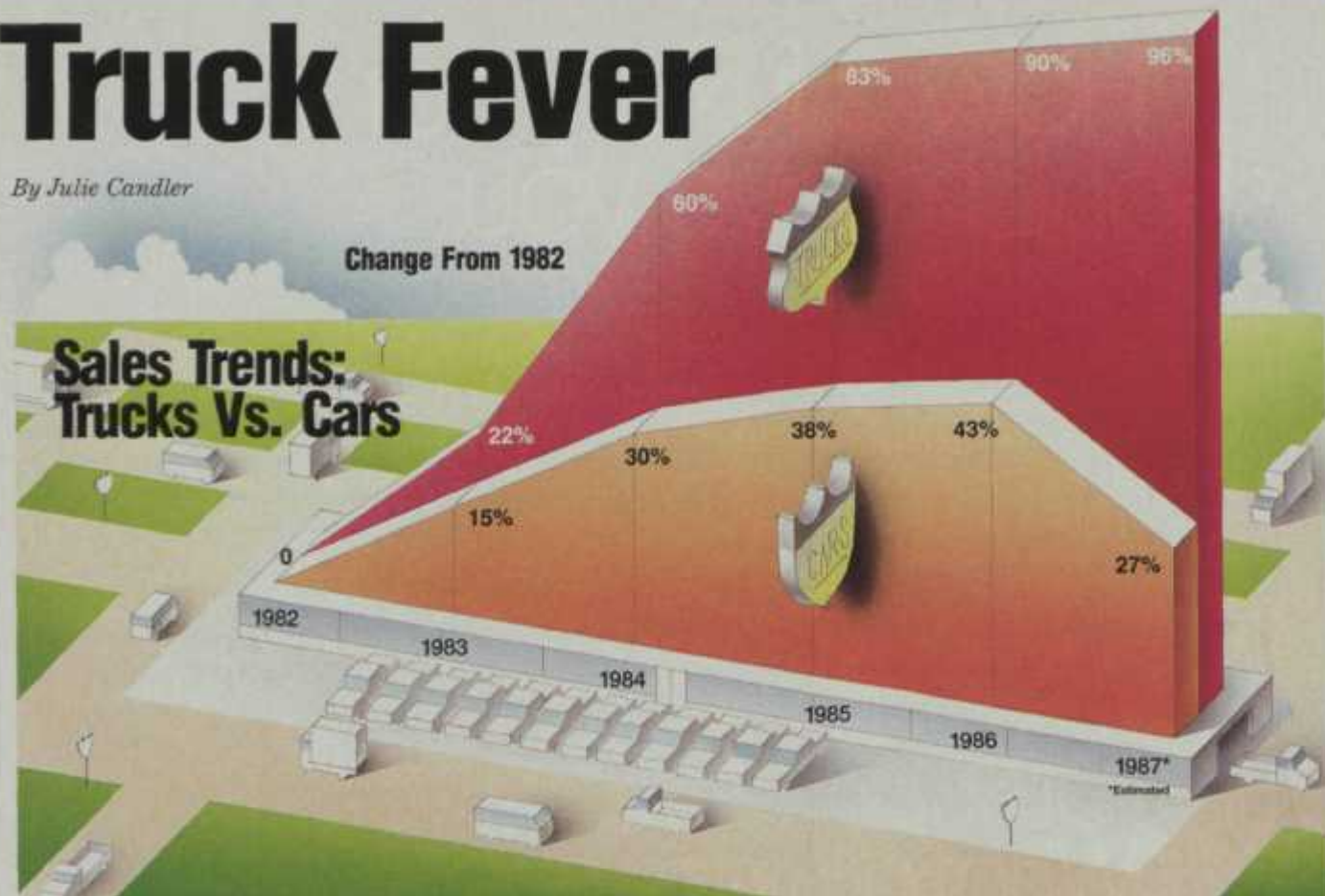


ILLUSTRATION: DALE GLASGOW

SOURCE: MOTOR VEHICLE MANUFACTURERS ASSOCIATION OF THE UNITED STATES, INC.



A fleet of about 90 mid-sized Chevrolet Celebrities and a few full-sized vans failed to meet the needs of Data Air Courier, Inc., of Rosemont, Ill. Fleet Manager Sandra Klontz solved it by switching 90 percent of the firm's vehicles to compact Chevrolet Astro "mini" vans.

"The little vans are more costly than automobiles, but one-ton vans were too much, and cars weren't enough," says Klontz, whose firm transports drafts and other banking papers nationwide. "The minivans became a compromise."

Klontz's switch tells what is happening in the truck world in 1987. Business people and consumers are opting for



PHOTO: T. MICHAEL KEZA

trucks instead of cars because of changing ways of living and doing business. They need (or want) stronger vehicles than downsized passenger cars, but they also need compactness and maneuverability. Truck manufacturers have obliged with a wide array of sizes, models and options for every conceivable niche.

The result? Huge sales. Some industry leaders estimate that about 600,000 owners annually exchange their passenger cars for light trucks. The truck industry is breaking all previous sales records, while auto sales are flat. In the first six months of 1987, domestic manufacturers broke five production re-



PHOTO: DAVID REPP

*Describe your business transportation need, and there's a truck made to handle it—from 4-wheel-drive utility vehicles to hard-working, hard-playing pickups.*

cords, turning out nearly 2 million trucks, according to the trade magazine *Automotive News*.

The roll that trucks are on has its origins in 1973, when OPEC created an energy crisis, gas lines and higher fuel prices. Motivated by the marketplace and average fuel economy standards set by the Environmental Protection Agency (now at 27.5 mpg), the auto industry produced substantial numbers of downsized, smaller-engined cars.

Since then, says Adlore Chaudier of Runzheimer International, a Wisconsin-based consultant on transportation costs, "A significant number of companies have realized that downsized pas-

*Julie Candler is a Detroit-based automotive writer whose articles have appeared in Woman's Day, McCall's, Ms., Working Woman, Redbook, Home Mechanix and other publications.*



*The company car is more likely to be a company truck these days, as more and more firms switch to larger, more durable vehicles for business use.*



PHOTO: JOHN HUNNING—GETTY IMAGES

senger cars don't suit their fleet needs."

"In 1979 you could get a full-sized passenger car with a 6- or 8-cylinder engine," says Chaudier, who is executive editor of Runzheimer's publications division. "Sales people still want the space to carry catalogs and samples, but they say the small cars can't do it for them."

Businesses seeking more room than the downsized cars offered thus became a major factor in the surge in sales of light trucks. Within a few years, truck makers stopped looking at light-duty trucks as smaller-volume, strictly functional workhorses. They improved performance, pizzazz, power and playtime usability. They added such options as bucket seats and AM/FM stereo radios. Consumers responded by crossing over from cars to trucks.

"Businesses aren't changing the

*Many light-duty work vehicles, such as these at the boat ramp at Lake Havasu, Ariz., do double duty on weekends.*

whole fleet, but they are changing its character. They are looking at pickups and vans, and there's a slight move toward utility vehicles. The new trucks are pretty fancied up so it makes it easier to get vehicles that will please the drivers."

According to a recent Runzheimer survey, "Business fleets with light trucks and vans are moving from full-sized vans to full-sized pickups, minivans and compact pickups."

The best-selling vehicles in the light-truck category are compacts like the Ford Ranger pickup, Toyota 4Runner utility vehicle and Dodge Caravan minivan. Small pickups, utility vehicles and

minivans now account for 54 percent of truck purchases.

Most newly introduced light trucks are in the multi-purpose Class 2 (6,000-10,000 pounds gross vehicle weight) and Class 3 (10,001-14,000 pounds GVW) varieties.

Class 3s, while in the light-duty category, are more likely to be large vans and walk-in trucks used for no-nonsense work. Demand for this size is strong, with sales in the first half of 1987 up 25 percent over last year.

**A**mong big trucks, the action is hot in the fuel-efficient, medium-duty segment, Classes 4 through 7. In the Class 5s alone (16,001-19,500 pounds GVW), sales in 1986 were up 15 percent over the previous year, according to *Ward's Automotive Reports*. For the first half of this year, Motor Vehicle Manufacturers Association figures show, mediums are 2.5 percent above last year. Even the long-hauling Class 8 semis (33,001 pounds GVW and above), whose sales peaked at 173,000 vehicles in 1979, are expected to climb back to about 120,000 units in 1987.

But sales have heated up most among light-duty pickups, vans and utility vehicles, like the AMC Jeep and Toyota 4Runner, that many business owners and employees use on weekends to tow boats and trailers, haul bikes and camping gear and bring purchases home from shopping malls.

The only all-new compact pickup for 1988 is marketed by American Isuzu Motors, Inc., in Whittier, Calif. Fritz Kern, vice-president for marketing, says these trucks should arrive around March from the parent company, Isuzu Motors, Ltd., of Japan.

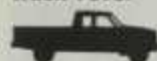
Because less than 5 percent of utility vehicles such as the AMC Jeep and the Ford Bronco are bought solely for commercial use, the accompanying guide (see page 18) covers only compact, full-size and Class 3 pickup trucks, vans and cab/chassis combinations. However, four-wheel drive (4x4) utility vehicles are bought frequently by business people for jobs such as bouncing around pothole-riddled construction sites.

"Trucks have been the growth part of the automotive industry since the 1970s," says Ray Windecker, manager



## COVER STORY

## Truck Fever



*King of the road: From the campground to inner-city streets, light trucks and vans are gaining territory previously held by automobiles.*



PHOTO: R. LEE—UPI/PHOTO

of research and analysis at Ford Motor Company. Windecker produces facts to prove it. Passenger car sales in 1973—the peak year—were 11.35 million. In 1986, for the first time, they topped that figure, to 11.44 million. It was a 1 percent increase. In the same period, Windecker points out, truck sales went up 50 percent—from 3.25 million in 1973 to 4.89 million in 1986.

GMC Truck Division predicted a market split of 70 percent commercial and 30 percent personal buyers when they first introduced their compact Safari van in 1984. It turned out to be the other way around, according to J.D.

Rock, general manager of GMC. Rock predicts the 600,000-plus crossovers from passenger cars to trucks will continue for another two to three years.

He thinks the reason is not only because the auto industry downsized its cars and engines, but also because it introduced front-wheel drive to provide more interior roominess in the smaller cars. But front-wheel drive does not pull loads well.

Those cars "are not good avocational vehicles," Rock says. "They won't handle jobs like towing a boat or a trailer."

Typical commercial buyers, of course, don't want styled wheels or a



PHOTO: RICHARD DERR—PICTURE GROUP

stereo with graphic equalizers. Yet many businesses are stepping up from "bare-bones" light trucks and are adding automatic transmissions and air conditioning.

Rock of GMC sees advantages to the commercial user in the light-truck boom created by personal buyers. "More competition provides stable pricing and more variety."

Even medium-sized and heavy-duty trucks are finding niches. Manufacturers using "just-in-time" delivery to reduce inventory costs need more frequent deliveries in smaller amounts. Therefore there is more interest in me-

## It's Not Always The Price

Whether a company is buying heavy-duty, medium or light trucks, the residual value is becoming as strong a consideration as purchase price.

Businesses buying trucks are using a variety of methods to compute maintenance costs and the potential resale value of their purchases.

As manufacturers add such sophisticated microprocessor-operated devices as fuel injection, maintenance costs may be higher for firms whose mechanics are unfamiliar with electronics.

Another more costly maintenance feature for owners of some light trucks is front-wheel drive. Fleet Manager Sandra Klontz of Data Courier Service, Inc., of Rosemont, Ill., found that front-end collision repairs were more economical for the fleet's rear-wheel-drive Chevrolet Astro vans than for the front-wheel-drive cars they replaced.

One fleet manager told Runzheimer International, a Wisconsin-based consulting firm on transportation and travel costs: "In our operation, maintenance costs on the front-wheel-drive vehicles are 50 percent higher than for our rear-wheel-drive vehicles when repairs must be made."

Still, maintenance costs for light trucks traded every few years may not be as important as the depreciation.

As one expert says, "You don't know what a light truck costs to own until you trade it in." But for owners of mediums and heavies kept 400,000 miles or more, maintenance is a major expense. Manufacturers know it and are focusing on reducing the cost.

Navistar International Transportation Corporation of Chicago tracks maintenance costs of its products. "As we design new products, we are looking at those areas that had the highest maintenance costs," says Neil Springer, president, chairman and CEO of Navistar.

The firm is the leader in Class 8

(33,001 pounds and over) truck sales, with 23.3 percent of industry volume. Its nearest competitor is Freightliner, at 15.5 percent, followed closely by Mack Trucks at 15.3 percent.

Says Runzheimer's latest report: "One strategy being increasingly adopted by government and utility fleets is to have life-cycle cost studies made to determine which vehicles to purchase from the often vast array of competitive bids."

Personal computers, on the rise themselves in small businesses, help produce good assessments of what a vehicle actually costs. Harry Warmkesel, Mack's director of product planning, credits computer analyses with his company's increasing penetration of the market.

On a heavy truck's price, Warmkesel says, "Too much emphasis is on the up-front selling price. That can represent as little as 15 to 18 percent of the overall fuel, driver, maintenance and repair costs over 400,000 to 500,000 miles of ownership."





## ANNOUNCING A SUPER-TOUGH TRUCK FOR SUPER-TOUGH JOBS! NEW '88 FORD F-SUPER DUTY.

**BRING ON YOUR BIG JOBS! FORD'S NEW F-SUPER DUTY IS RATED 3,500 LBS. OVER ANY ONE-TON. POWERED BY THE BIGGEST GAS AND DIESEL V-8's.**

There's nothing on the market like Ford's new F-Super Duty. It bridges the gap between "one-ton" models and

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It's super-sturdy—with stronger frame rails than a one-ton and nearly 3,000 lbs. more axle capacity.

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#### POWERTRAIN

7.5L EFI gas V-8  
7.3L diesel V-8  
5-speed manual  
overdrive transmission  
—synchro in all gears.

#### CAPACITIES

14,500 lbs. GVWR  
26,000 lbs. GCWR (7.5L)  
Axles: 5,000 lb. front  
11,000 lb. rear  
Regular Chassis-Cab 4x2  
Wheelbases: 136.8 in.  
160.8 in.

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Covers powertrains for 6 years/60,000 miles and body-panel rust-through for 6 years/100,000 miles. Restrictions and deductible apply. Ask your Ford Dealer for a copy of this limited warranty.

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# 1988 Buyers' Guide—

Make and Series	Wheel Base Range (inches)	Overall Length Range (inches)	Engine Range <sup>1</sup> (D=diesel)	Transmission <sup>2</sup>
<b>Chrysler Motors/Dodge Division</b>				
Ram 50 <sup>3</sup>	105.1-116.1	177.0-193.5	2.0L-2.6L	M5,A4
B150 Ram Pickup	115.0-131.0	190.8-210.8	3.7L,1.6-5.9L,V8	M4C,M4,L3C,A3
D250 Dodge Ram Pickup	131.0	210.8	3.7L,1.6-5.9L,V8	M4C,L3,A3
D350 Dodge Ram Pickup	131.0-159	210.8-240.7	5.9L,V8	M4,L3,A3
B150 Longrange Ram Van	109.6-127.6	178.9-196.9	3.7L,1.6-5.2L,V8	M4,L3,A3
B150/250 Ram Van	109.6-127.6	178.9-196.9	3.7L,1.6-5.9L,V8	M4,L3,A3
B250 MaxiVan	127.6	222.9	3.7L,1.6	M4,L3,A3
B350 Ram Van & MaxiVan	127.6	196.9-222.9	5.2L,V8-5.9L,V8	A3
Dakota Pickup	111.9-123.9	185.9-204.4	2.2L-3.9L,V6	M5,L3
Dodge Caravan/Plymouth Voyager Van	112-119	175.9-190.5	2.2L-3.0L,V6	5M,3A
<b>Chrysler Motors/Eagle-Jeep Division</b>				
Comanche	113-120	194	2.5L-4.0L,1.6-2.1L,D	M5,M4,L4
<b>Ford Motor Company</b>				
Ranger Pickup	107.9-125.0	175.6-192.7	2.0L,4-2.9V6,2.3L,4D	M5,L4
F150 Pickup	116.8-155.0	193.6-232.2	4.9L,6-5.8L-V8	M5,M4C,A3
F250 Pickup	133.0-155.0	208.3-230.3	4.9L,6-7.5L-V8,7.3L-V8D	M4C,L4,A3
F350 Pickup	133.0-168.4	210.2-245.7	5.8L-V8-7.5L-V8,7.3L-V8D	M5,A4,A3
F350 Super Duty Pickup	136.8-160.0	205.8	7.5L-V8,7.3L-V8D	M5,A3
Aerostar Van	118.9	174.9	2.3L,4-3.0L-V6	M5,L4
E150 Van	124.0-138.0	186.8-226.8	4.9L,6-5.8L-V8	M5,A4,A3
E250 Van	138.0	206.8-226.8	4.9L,6-5.8L-V8	M5,A4,A3
E350 Van	138.0	206.8-226.8	4.9L,6-7.5L-V8,7.3L-V8D	M5,A4,A3
<b>General Motors Corporation—Chevrolet/GMC</b>				
S10-S15 Pickups	108.3-122.9	178.2-194.2	2.5L,4-2.8L,V6	M5,4,A4,3
Chevy C/K GMC Sierra	117.5-155.5	199.4-242.3	4.3L-V6-7.4L-V8,6.2L-V8D	M5,M4C,MA4,A3
Astro/Safari Cargo Van	111.0	176.8	2.5L,4-4.3L-V6	M5,M4,L4,A3
Van/Vandura Truck	110-125	178.2-202.2	4.3L-V6-5.7L-V8,6.2L-V8D	M3,L4,A3
Value/Magna Van	125-178	261.2	4.8L-V6-8.2L-V8D	M4,A4,3
W-4 Tiltmaster/Forward Truck <sup>3</sup>	108.9-132.5	205.7-239.2	3.9L-V6	M5
<b>Isuzu</b>				
PUP <sup>4</sup>	104.3-117.9	174.4-191.5	1.9L-2.2L,D-Turbo	M5
NPR	108.9-132.5	205.7-239.2	3.9L	M5
<b>Iveco</b>				
110	118-141.7	219.4-254.6	5.9L	A3
<b>Mazda</b>				
B2200/2600	108.7-117.5	177.6-198.8	2.2L,2.6L	M5
<b>Mitsubishi</b>				
Wagon	88.0	175.2	2.4L	A4
Van	88.0	175.2	2.4L	A4
Pickup Truck	105.1-116.1	177.0-193.5	2.0L-2.6L	M5,A4
<b>Nissan</b>				
2WD Pickup	104.3-116.1	174.2-190.0	2.4L-3.0L	A3,A4,M5
<b>Toyota</b>				
Pickup	112-121.5	184.1-186.2	2.4L	M4,5,A4
Van	88	175.8	2.2L	A4,M5

<sup>1</sup>Cylinders listed only when over 4. <sup>2</sup>M=manual; A=automatic; C=creeper; L=lockup torque converter (overdrive). <sup>3</sup>Captive import. <sup>4</sup>New vehicle; scheduled to arrive in March.



# Light Trucks



Horse Power	Gross Vehicle Weight (lbs.)	Payload Range (lbs.)	Fuel Economy—City (mpg)	Base Price <sup>a</sup>
90	4,165-4,896	1,520-2,110	19-23	\$5,810-\$11,000
95	4,950-6,050	1,424-2,388	10-14	\$9,348
95	6,600-8,510	2,681-4,331	11-16	\$11,018
185	8,700-10,500	4,448		\$12,530-\$12,574
90	5,000-5,300	1,308-1,714	10-15	\$9,820-\$10,464
90	6,010-6,400	1,400-2,674	10-15	\$10,926
90	6,400	2,544	10-15	\$11,858
120	7,500-9,000	3,407-4,546	10-12	\$12,379-\$18,180
93	4,110-5,930	1,250-2,550	18-22	\$7,874
96	4,060-5,020	1,200-2,010	21	\$10,876-\$12,206
117	4,477-4,582	1,200-2,205	16-28	\$9,988
80-140	3,820-4,740	1,220-1,750	25-26	\$6,988-\$9,241
145	5,250-6,250	1,245-2,375	13-19	\$10,009-\$11,905
150	6,600-8,800	2,380-4,515	13-19	\$11,374-\$13,609
190	8,800-9,200	4,210-5,750	na	\$13,710-\$15,370
na	14,500	9,380-9,450	na	na
90-145	4,160-5,040	1,200-2,040	21-27	\$9,991-\$11,132
145	5,400-6,500	1,305-2,365	12-17	\$10,928-\$12,078
150	6,900-8,100	2,675-3,380	12-15	\$12,068-\$12,781
150	9,000-9,400	4,110-4,670	na	\$12,873-\$13,992
98	3,570-4,959	1,000-1,625	17-23	\$6,890-\$8,462
160	4,900-10,000	1,128-5,328	13-17	\$9,347-\$11,684
98-150	4,088-5,681	1,000-1,700	14-21	\$9,262-\$11,544
155	4,900-8,600	1,101-2,375	15-22	\$9,989-\$13,278
125-200	7,400-14,000	4,000	12-14 <sup>a</sup>	\$17,000-\$22,600
104-126	11,000-13,250	8,004-8,114	12-14 <sup>a</sup>	\$15,000
82	3,550-4,550	1,035-1,690	21-35	\$6,719-\$11,059
104-126	11,000-13,250	na	12-14 <sup>a</sup>	\$15,730
120	11,600	6,111-6,222	12.9-15.7	na
85	4,175	1,400	22	\$6,999
107	4,795	1,576-1,951	19	\$13,299-\$14,869
107	4,795	1,576-1,951	19	\$10,029-\$10,739
90	4,165-4,896	1,520-2,110	19-23	\$6,599-\$8,019
106	4,200-5,200	1,400	16-20	\$6,699-\$12,144
116	4,400-5,500	1,640-2,655	21-26	\$6,998-\$12,488
101	4,800	1,470	20-22	\$9,948-\$12,728

<sup>a</sup>Manufacturer's suggested retail for 1987; 1988 prices will be slightly higher. <sup>b</sup>Estimated.



# 1988 Buyers' Guide—

Make and Series	Cab Type	Wheelbase <sup>1</sup> (range)	Engines (range) D = diesel
<b>Chevrolet/GMC</b>			
W4 Tiltmaster/Forward	cab over engine	108.9-150.2	D100-116
W4 Tiltmaster/Forward	stripped chassis	108.9-150.2	D100-116
W5 Tiltmaster/Forward	cab over engine	147-165	D150-155
W6 Tiltmaster/Forward	cab over engine	162-186	D138-165
W7 Tiltmaster/Forward	cab over engine	141.7-196.9	D165
W7HV Tiltmaster/Forward	cab over engine	125-196.9	D220
C Series C5D042,C6D042,C7D042,C7D064	conventional	125-254	160-230
Kodiak/Top Kick	short conventional	149-227	D165-250
GMC Brigadier	conventional	139-250	D153-345
GMC General	conventional	159-256	D300-475
GMC Astro	cab over engine	118-195	D300-475
<b>Ford</b>			
Cargo Series: CF6000,CF7000,CF8000,CF8000	cab over engine	117-225	D170-210
F Series: F600,F700,F7000,F800,F8000,FT800,FT8000,FT900	conventional	129-238	D160-240
B Series: B600,B700,B7000	conventional	151-275	D160-225
C Series: C800,C8000,CT8000	cab over engine	111-175	D165-250
LN Series: LN8000,LN9000,LNT8000,LNT9000	conventional	138-222	D165-350
L Series: L8000,L9000,LT8000,LT9000	conventional	138-222	D165-400
LS Series: LS8000,LS9000,LTS8000,LTS9000	conventional	143-203	D165-350
LTL Series: LL9000,LTL9000	cab over engine	174-246	D270-400
CL Series: CL9000,CLT9000	cab over engine	120-246	D300-400
Aeromax 9000 (S.B.)	conventional	131-203	D240-400
<b>Freightliner</b>			
120 Conventional: FLC-12042T,12064T,12064	conventional	170-270	D240-475
120 Conventional (setback axle): FLC-12042ST,12064ST,12064S	conventional	154-254	D240-475
112 Conventional: FLC-11242T,11264T	conventional	154-248	D240-425
Conventional Hard Hat Series (setback axle): FLC-11242ST,11264ST,11264S,11242S	conventional	138-244	D240-425
CDE Series: FLT-8642T,8664T,8664	cab over engine	130-263	D240-475
<b>Hino</b>			
FB-142S,143S	cab over engine	129.9-148.8	125
FE-172S,173S,174S,175S,194,195	cab over engine	148.8-217.7	D155-180
FF-172S,173S,174S,175S	cab over engine	149-199	D160-225
SG-223S,225S,227S,228S,231	cab over engine	126-228.3	D225
<b>Isuzu</b>			
NRR	cab over engine	147-165.5	D154
FSR	cab over engine	144-186	D154-170
FTR	cab over engine	142-197	D170
FVR	cab over engine	142-216	D225
EVR (single axle)	cab over engine	125	D225
<b>Iveco</b>			
Z200 chassis cab, Z200T chassis cab Z200 chassis cutaway, Z200T chassis cutaway	cab over engine	141.7	D120
Z230T	cab over engine	141.7	D130
Z340T	cab over engine	149.6	D140
Z450T	cab over engine	149.6-173.2	D150
<b>Kenworth</b>			
Construction: C510,C520	conventional	155-320	D200-475
K100E,K100E/K135	cab over engine	120-260	D230-525
T600A	conventional	160-260	D240-400
T800	conventional	160-260	D240-425

<sup>1</sup>Longer wheelbases for tractors include sleepers. <sup>2</sup>SB = set-back front axle. <sup>3</sup>SF = set-forward front axle. <sup>4</sup>ES = extended sleeper.



# Medium/Heavy Trucks



Horse power <sup>a</sup> (range)	Gross Vehicle Weight (lbs)	Gross Combination Weight <sup>a</sup> (lbs)	Distance, Bumper To Back Of Cab (inches)	Distance, Back Of Cab To Rear Axle (inches)
100-116	11,000-13,250	na	67.9	88.4
100-116	11,000-13,250	na	67.9	129.7
150-155	15,000	na	68	127-145
138-165	19,450-22,000	na	76	136.4-160
165	27,500-29,700	na	76	116
220	33,000-60,000	60,000	75	171
160-230	20,000-74,000	20,500-74,000	96.75	60-188.5
165-250	38,600-50,000	60,000-74,000	92.3	85.5-163.5
153-345	33,000-62,000	70,000-130,000	94.8	72-183
300-475	35,000-79,000	90,000-130,000	108-116	79-168
300-475	56,000	80,000-130,000	54-87	72-169
170-210	26,500-51,000		82.7	123-195
160-240	20,200-50,000	60,000-80,000	103-103.1	60-168
160-225	21,000-28,000		58.5	127-251
165-250	25,000-56,000	50,000-75,000	86.6	80-144
165-350	23,100-64,000	70,000-82,000	93.3	72-156
165-400	23,100-64,000	70,000-82,000	105.3	60-144
165-350	25,100-66,000	70,000-82,000	105.3	64-144
270-400	35,000-62,000	80,000-138,000	116-152	81-159
300-400	35,000-51,100	80,000-138,000	64-110	74-210
240-400	56,000	80,000-138,000	105	72-144
240-475	28,000-58,000	127,000-200,000	121	79-179
240-475	28,000-58,000	127,000-200,000	121	79-179
240-425	30,800-54,600	127,000-143,000	112	72-166
240-425	30,800-62,000	127,000-154,000	112	72-178
240-475	28,000-58,000	127,000-200,000	87	73-206
125	16,500	na	67.7	108-126.9
155-180	25,500	na	78.5	162.6
160-225	28,000-30,000	na	78.5	112.6-162.6
225	32,900	55,000	78.5	132-181.5
154	16,000	na	68	127.2-145.7
154-170	19,450-22,000	na	76.2	117.9-160
170	25,500-29,760	na	76.2	116.1-171.3
225	32,900	na	76.6	116.1-191.1
225	60,000	60,000	76.6	100
120	14,800	30,000	67-69.1	117.9-120
130	16,900	30,000	69.1	117.9
140	18,900	36,000	70.7	125.8
150	22,800	na	70.7	125.8-149.5
200-475	32,000-130,000	85,000-258,000	115	83-248
230-525	35,000-84,000	76,800-120,000	52-108	62-208
240-400	35,000-84,000	76,800-180,000	120	70-170
240-425	35,000-84,000	76,800-180,000	120	70-170

<sup>a</sup>Horsepower is 49-state rating. California may differ. <sup>b</sup>Gross combination weight is to customer specifications.



# SIZED RIGHT.

**The all-new Mitsubishi Fuso FE Class 3 truck is built on a history of manufacturing over 1,000,000 Class 3s.**

Intracity drivers have to deliver heavy loads. The 10,001–14,000-lb. GVW category needs genuinely tough trucks. Don't be fooled by the FE's size. It's a real truck down to every suspension component. And that's no wonder. Mitsubishi has been making dependable trucks for 70 years.

After decades of being driven throughout the rest of the world, the Mitsubishi Fuso FE truck is now in America. And it comes with the latest technology offered today. In fact, behind the FE's innovative engineering is Mitsubishi's experience of producing over 1,000,000 Class 3 trucks.

The FE's deep-cut door windows and large front windshield offer panoramic visibility unmatched in its class. The FE's ergonomically-inspired tiltable/telescopic steering column, automatic transmission and fully adjustable body-contoured seats for three offer enhanced driver productivity. And the FE offers disc brakes. And a failsafe braking system with dual independent brake lines. For drivers, that means a better working environment. For fleet owners, an investment that pays off faster.

Our human engineering philosophy carries on from our medium-duty FK and FM models (Class 6 & 7) introduced last year. And our truck building philosophy now offers you a new choice, a tough new Class 3 truck sized right for you, your needs and the market.

## MITSUBISHI FUSO FE



**Advancing the value of trucks through human engineering.**

MITSUBISHI FUSO TRUCK OF AMERICA, INC.  
P.O. Box 464, 100 Center Square Road, Bridgeport, New Jersey 08014, U.S.A.  
Circle No. 90 on Reader Service Card.

MITSUBISHI MOTORS CORPORATION  
TOKYO, JAPAN









Make and Series	Cab Type	Wheelbase <sup>1</sup> (range)	Engines (range) D = diesel
W900B	conventional	160-260	D230-525
<b>Mack</b>			
Mid-Liner MS: 200P/250P,250T,300P,300T	cab over engine	138-205	D165T-D215
Mid-Liner CS: 200P/250P,300P,300T	conventional	152-231	D165T-D215
MR Series: 600P,600S	cab over engine	133-237	D237-285
U Series: 600T,600ST	conventional	139-201	D237-350
DM Series: 600SX,DM600X,600S,800ST	conventional	149-320	D237-500
RM Series: 600S,600SX,RM6004X,6006S,6006SX	conventional	139-360	D237-350
Super-Liner® II: RW 602,702,603,703	conventional	163-299	D275-500
R Series: R600T,600ST	conventional	138-240	D237-350
Ultra-Liner®,MH602,603	cab over engine	112-205	D250-500
RD Series: RD600P,600S,600X,800S,800SX,8006S,8006SX	conventional	163-320	D237-500
<b>Mercedes-Benz</b>			
L1113,1117,1319	conventional	142-232	D130-190
LPS 1525	cab over engine	118	D250
LP1219,LP1419	cab over engine	165.4-203.5	D190
<b>Mitsubishi Fuso</b>			
FK 415,455	cab over engine	164-204.5	D157-185
FM555	cab over engine	145-218.5	D185
<b>Navistar</b>			
400,500,700,900&900 Tractor	cab over engine	147-210	D170-210
Metro II 1400-1600	walk-in	152-218	7.3L-D-V8
S Series: 1600,1700,1800,1900,2500,2600	conventional	124-256	D155-350
S Series Tractors: 1900,2100,2200,2300,2500/2600SB <sup>2</sup>	conventional	124-256	D180-350
5,000 Series: F5050SB <sup>2</sup> ,5050SB <sup>2</sup> &SF <sup>3</sup> ,F5070SB,SF & Weight Watcher	conventional	146-242	D210-400
International 8300 & 8300SB <sup>2</sup> Tractor	conventional	148-196	D240-350
International 9300,9300SB <sup>2</sup> Tractor	conventional	150-240	D300-444
International 9600 SF Tractor	cab over engine	110-195	D270-400
International 9700SB <sup>2</sup> Tractor	cab over engine	114-169	D300-444
<b>Peterbilt</b>			
Construction 353,357	conventional	150-300	D240-475
Conventional 379,377,375	conventional	131-275	D240-450
LCF cab over engine 320	cab over engine	141-265	D240-350
Cab over engine 362	cab over engine	113-275	D240-475
<b>SAAB-Scania</b>			
P112,MU6X4,HU,HUS,MU4X2	cab over engine	134-223	D308-341
T112,HU,HUS,MU	conventional	152-255	D308-341
<b>UD Trucks (Nissan Diesel)</b>			
CMA83E,CMA83F,CMA83H,CMA83K	cab over engine	148.4-190.2	D170
CLA83D,CLA83F,CLA83H,CLA83K	cab over engine	147.4-189.2	D170
CPB12,CPB12H,CPB12M,CPB12R	cab over engine	177.2-238.2	D175
CPC12,CPC12E,CPC12H,CPC12M,CPC12R,CPC12T	cab over engine	124.3-238.2	D210
<b>Volvo-White</b>			
Volvo FE6 Series: FE613,613H,614T,615	cab over engine	110-228	D174-205
Volvo FE7 Series: FE715,716T	cab over engine	110-228	D203-230
Volvo N Series: N1025,1235,1225,1227,1228	conventional	177-270	D255-350
Volvo N Series: N1016T,1227T,1216T,1223T,1225T	conventional	156-223	D255-350
White Conventional Series: WCS42T,WCM42T,WCL42T,WCS64T,WCM64T,WCL64T	conventional	146-170	D300
White Conventional Aero SB <sup>2</sup> ,WCA64T,WCA42T	conventional	146	D300
White Integral Sleeper Series: WIM64T,WIL64T,WIL64TTS	conventional	203-212	D300-D400
White Integral Sleeper Aero,WIA42T,WIA64T	conventional	188	D315
White Xpeditor Tractor,WX42T,WX64T	cab over engine	107-131	D240
White High Cabover Series: WHS42T,WHL42T,WH54T,WHL64T	cab over engine	131-161	D300
Autocar® AT,DK,DS Series	conventional	172-304	D240-D400
<b>Western Star</b>			
4842-1,4942-1,4864-2,4964-2	conventional	176-188	D200-475
4844-2,4866-3	conventional	variable	D210-400

<sup>1</sup>Longer wheelbases for tractors include sleepers. <sup>2</sup>SB=ret-back front axle. <sup>3</sup>SF=ret-forward front axle. <sup>4</sup>ES=extended sleeper.



Horse power <sup>a</sup> (range)	Gross Vehicle Weight (lbs)	Gross Combination Weight <sup>a</sup> (lbs)	Distance, Bumper To Back Of Cab (Inches)	Distance, Back Of Cab To Rear Axle (Inches)
300-400	35,000-84,000	76,800-180,000	120	70-170
165-215	25,000-35,000	45,000-60,000	70	116-183
165-215	23,500-35,000	50,000-60,000	103	94-159
237-285	33,500-78,000	na	63	129.5-233.5
237-350	33,500-74,000	69,900-80,000	94	73-135
237-500	33,500-85,000	na	101-125	85-256
237-350	39,000-103,000	na	118	78-299
275-500	33,500-78,000	69,900-80,000	121	70-206
237-350	33,500-64,000	69,900-80,000	108	59-161
250-500	33,500-64,000	69,900-80,000	59-90	75-174
250-500	33,500-103,000	80,000-120,000	112-129.3	84-242
130-190	25,000-30,000	na	88	99-189
250	33,000	66,800	61.6	109.8
190	27,500-32,900	na	61.6	157.3-195.4
157-185	23,000-28,000	na	78	134.5-175
185	32,600	na	78	115.6-189
170-210	17,640-32,000	na	76	118-211
130-170	14,840-24,000	na		
155-350	14,850-80,000	na	98-112	60-186
180-350	23,300-62,000	60,000-110,000	91.8-112.1	56-193
210-400	33,280-85,000	60,000-140,000	114-143	84-150
240-350	46,000-51,200	60,000-110,000	112.2	84-132
300-444	46,000-57,200	90,000-140,000	118	76-166
270-400	32,000-56,000	80,000-140,000	63-110	67-134
300-444	32,000-51,200	80,000-140,000	89-110	100.5-133.5
240-475	50,000-100,000	250,000	117-123	65-229
240-450	32,000-68,000	80,000-130,000	114-127	46-165
240-350	37,600-50,000	30,000-70,000	58	115-233
240-475	32,000-68,000	80,000-130,000	63-110	65-224
308-341	37,480-62,170	80,000-154,000	66.2-88.6	100.9-212.8
308-341	52,470-62,170	154,000	116.9-139.4	91.8-193.7
170	17,640	na	81.1	110.2-152
170	19,840	na	82.1	110.2-152
175	29,760	na	84.8	140.9-202
210	32,900	na	84.8	120-213
174-205	28,500-30,000	55,000	79-80	89-207
203-230	32,900-35,000	na	82	87-205
255-350	35,000-70,700	80,000-140,000	96.5-102.4	79-198
255-350	35,000-60,500	80,000-110,000	102.4-102.5	75-142
300	35,000-52,000	47,000-125,000	92-116	84
300	35,000-52,000	47,000-125,000	112	84
300-400	52,000	80,000-125,000	143-212	88-90
315	52,000	80,000-125,000	148	85
240	35,000-79,000	50,000-135,000	56	90-120
300	35,000-52,000	47,000-125,000	53-88	69-215
240-400	60,600-125,000	80,000-125,000	103-124	93.5-219
200-475	33,000-50,000	100,000-110,000	108-122	84-110
210-400	37,000-54,000	variable	108	variable

<sup>a</sup>Horsepower is 48-state rating; California may differ. <sup>b</sup>Gross combination weight is to customer specifications.



## COVER STORY

## Truck Fever



Medium and heavy-duty trucks, ideal for hauling and delivery jobs, now also respond to consumers' desires for fuel-saving design and comfort options.



PHOTO: SAL DIMARCO—BLACK STAR



dium-sized vehicles to fill that need.

When General Motors President F. James McDonald greeted the press at one of the firm's new state-of-the-art assembly plants, he said: "In the past our plants have probably received 90 to 95 percent of parts and supplies by rail. Here we are going to receive 70 to 75 percent of them by truck." Up to 350 trucks a day unload supplies for the 30 miles of conveyers inside the plant.

Another major boost to the sale of medium trucks arises from the growth in U.S. service industries. Most want short-run, intra-city haulers that can also thread their way through city traffic.

Among the first to respond to the new urbanized market were offshore manufacturers. Altogether, imports held nearly 20 percent of the market in 1986. With the strengthening value of the Japanese yen, the percentage is down to 18.

In recent years, imports have brought to the United States sleek, light, cab-over-engine trucks designed to operate with economy while maneuvering expertly through city traffic. Isuzu; Hino Diesel Trucks, Inc.; Iveco Trucks of North America, Inc.; Mitsubishi Fuso Truck of America, Inc.; and Nissan Diesel America have introduced a well-received diversity of mediums.

At the same time, manufacturers of Class 8 tractor trailers are pursuing a growing market for products custom-built for fuel economy and shorter-haul work.

Whatever the class, medium and heavy-duty trucks are increasingly designed with diesel engines. Steven M. Allen, vice president of Isuzu Truck of America, Inc., thinks that, as fuel prices rise, diesels will replace gas en-

gines in anything heavier than a pickup.

The industry is beginning to offer trucks in Class 4 (14,001-16,000 pounds GVW), a category that saw no production for several years. The category is useful for home delivery, moving and storage, vending, snack foods and bakery delivery.

Says Allen of Isuzu: "We are relying more on having our purchases delivered quickly. If a guy buys a piano today, he wants it delivered tomorrow. You can't have a big semi at your house off-loading a washer and dryer."

Joseph P. Rossetti, executive vice president for marketing of Mack Trucks, Allentown, Pa., says: "For years, people would buy heavy trucks and use them to do lighter jobs. Major carriers are segmenting by buying for the job, rather than buying one truck to do every job."

Even manufacturers who once built Class 8s exclusively have pared to the lighter Class 7s (26,001-33,000 pounds GVW). Mack has invested in several Class 7s. Paccar, Inc., the maker of heavy-duty Kenworth and Peterbilt trucks, is offering a new Class 7 Mid-Ranger 13-210.

Most manufacturers of mediums and heavies are allowing no niche to go unfilled in their lineups. For example, both Freightliner of Portland, Oreg., and Kenworth Truck Company of Kirkland, Wash., have recently introduced heavy-duty vehicles designed specifically for construction use.

In late 1985, Ford Truck Operations introduced a medium that can be used as a van, a flat-bed truck, refuse collector or tanker. It's the Cargo truck, a Class 7 the company produces in Brazil. It was so well received that its first-year sales were more than 50 percent higher than anticipated.


While truck makers are expected to increase prices slightly with their new models, many dealers may be offering more attractive deals because of tough competition. The huge gains by the yen against the dollar have forced Japanese manufacturers to raise prices. But *Automotive News* predicts that dealers representing the smaller Japanese manufacturers can be expected to make less profit per vehicle and offer better prices.

Tough competition is leading to regrouping among medium and heavy-duty manufacturers. Chevrolet is turning marketing of its line of mediums over to GMC. Chrysler is purchasing American Motors, specifically to make and market its popular Jeeps. GMC and Volvo-White are merging January 1, and more mergers are expected.

The demand for new trucks, both light and heavy, should increase because their owners are driving more miles every year. A Hertz Corporation report on spending per vehicle estimates that in 1986 overall truck mileage rose 10.8 percent over the previous year.

However, the Motor Vehicle Manufacturers Association says that one thing about trucks in America is that "they just keep on going. There are nearly 45 million trucks on the nation's roads with a mean age of eight years. More than 5 million are six years and beyond."

A lot of those tired old workhorse trucks may not even be getting a rest on weekends. They're probably trucked out to tow those boats and trailers, haul the camping gear and bikes and bring the packages home from the malls. ■

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# ISUZU



# Preparing For The Worst

By Michael Pollick

**A** company's benefit plan, like any insurance, is based on predictability.

Enter a new and fatal ailment that kills its otherwise healthy victims in about two years and has no known cure.

"If a plan started out three or four years ago, there was no reason to account for AIDS," says Charles Betley, who monitors Acquired Immune Deficiency Syndrome for the Washington-based Employee Benefit Research Institute. "If one person in a small company caught AIDS, that could pretty much throw a monkey wrench into its planning."

How much of a monkey wrench?

Consider one Chicago case covered on a small-employer health plan by Mutual Benefit Life Insurance Company of Newark, N.J.

A man covered by the plan lived 11 months after being diagnosed as having a fully developed case of AIDS.

After two months of continuous hospitalization, the man's relatives requested in-home care. Mutual Benefit's "case-management team" agreed with the request, supplied hospital equipment for home use, 24-hour-a-day attendants and daily visits by registered nurses. The man's care and treatment cost \$186,053. The bill would have been even higher had the patient stayed in the hospital until he died.

For just the last two months of his life, the hospital bill, at \$763 a day, would have been \$45,780, the insurance company says. Instead of that, the home-health-care cost was \$3,253.

The cost of treating an AIDS patient can be as low as \$35,000 or even higher than for the Chicago victim.

The typical employer makes other promises to his workers as well. A disabled worker who makes \$25,000 might receive nearly that much in sick leave plus long-term disability payments.

After an employee's death, the typical company-paid life insurance policy might provide for a payment of two times earnings, or \$50,000 in this case, to the beneficiary.

If the same worker is an executive making \$75,000 a year, the disability

*The man is an AIDS patient; the women are workers in a hospice, a facility for the terminally ill. Hospices*

*and home care are growing in favor as humane alternatives to costly hospital care.*



PHOTO: JAMES WILSON—WOODFIN CAMP

and death benefits would be magnified to \$75,000 and \$150,000 respectively.

But taking care of the dying AIDS victim is the largest variable in keeping your benefits plan intact. The safest plans are those in which your company's health experience is "pooled" by the underwriter with that of many other companies.

Smaller companies that have chosen to self-insure for health care and those that have their premiums determined by their own experience are at the greatest risk when AIDS strikes.

Let's say you have 100 employees. You are told that if you self-insure, you can expect health-insurance claims of

\$150,000 to \$200,000 per year—or \$1,500 to \$2,000 per person—and that you'll have cash-flow advantages.

True enough, on average. The average company with 500 employees or fewer spent \$1,861 per employee on health care last year.

But all it would take is one \$150,000 claim to raise the self-insurer's cost to a much higher range—\$3,000 to \$3,500 per worker. A similar situation would occur in a pure experience-rated policy—premiums would jump to match the previous year's costs.

"AIDS may be a convenient way to explain to small employers why they shouldn't want to be self-insured," says

*Michael Pollick is a Washington-based free-lance writer.*



# What Will You Do When Your Personal Assets Are Seized to Satisfy A Judgement Against Your Corporation?

All your many tax benefits of owning a corporation could be wiped out overnight. How? The I.R.S. could visit you and claim you have not kept proper corporate minutes. You could lose the very tax benefits to which the law entitles you.

Banks, insurance companies and various state and federal agencies, besides the I.R.S., all require notarized authorizations to grant loans, buy property and equipment, enter into leases and even to sell assets. And other problems can be equally devastating. The reason? The owner didn't document important transactions. The small business owner simply has to "Get It In Writing".

Here are some recent "horror stories" direct from actual court cases.

Joseph P. obtained a loan from his corporation without the proper loan documents and corporate minutes. As a result, the court required him to pay additional taxes of \$27,111.60. He narrowly escaped a penalty of \$13,555.80.

B.W.C., Inc. was forced to pay \$106,358.61 of accumulated earnings tax because its corporate minutes were incomplete. They expressed "no specific, definite, or feasible plans" to justify accumulating earnings, according to the court.

Keeping records has always been a bother, and an expensive one, especially for small companies. Most entrepreneurs do not like to spend time keeping records. Probably because no one ever became rich by keeping records. And in a small, one-person business, it seems downright silly to keep records of stockholder meetings and board of directors meetings . . . keeping minutes . . . taking votes . . . adopting resolutions . . . isn't it all just a waste of time?

Not if you ask any of the thousands of entrepreneurs who have lost fortunes because they failed to keep records. You should look at corporate record keeping chores this way: *It's part of the price you pay to get the tax benefits and personal protection from having a corporation.*

A corporation does not exist except on paper, through its charter, by-laws, stock certificates, resolutions, etc. Anything you do as an officer or director has to be duly authorized and evidenced by a resolution of the stockholders or the board, or by both in some cases. It makes no difference if there is only one stockholder or one million stockholders. The rules are basically the same.

You can hire a lawyer, like the big companies do, and pay \$100 or more just to prepare one form. But you may need, at minimum, a dozen or more documents to keep your corporation alive and functioning for just one year. This type of work is the bread and butter for many corporation lawyers. Most of the work can be done by their secretaries, yet they will charge you enormous sums because they know how important the forms are

that the I.R.S. will insist that you have the corporate records to prove that you are entitled to all the tax breaks from having a corporation.

There is now a way for you to solve your corporate recordkeeping problems. Without a lawyer, without paying big fees, and without spending a lot of time. It is truly **The Complete Book of Corporate Forms**. It was prepared by Ted Nicholas, author of the best-seller, *How To Form Your Own Corporation Without A Lawyer For Under \$50*. This book has become the largest single source of new corporations in America. His book has revolutionized the business of forming new corporations by making the process simple, easy and inexpensive.

But forming a corporation is only the first step toward building "the ultimate tax shelter." Through carelessness or neglect, many people are denied their rightful benefits from owning their own corporation. Ted Nicholas saw that many business owners needed more help after they incorporated. They didn't know how to follow through, how to turn their corporation into the ultimate tax shelter.

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Changes in Membership of Board

You will also receive all the stockholder and directors resolutions you will need to take any major business action, including:

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Plus, you'll receive the forms needed to authorize any of these tax-saving fringe benefits:

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## MANAGING YOUR BUSINESS

## Preparing For The Worst

Nancy Jones, a vice president of Boston-based benefit-consulting firm Johnson & Higgins HealthGroup. She points out that many other medical needs these days can be just as expensive. Helping a premature baby to live can cost \$250,000 and so can saving a severely burned person.

The benefit plans facing the greatest risk are those without any outside stop-loss coverage, says W. Brian Harrigan, executive vice president of Westport Management Services, a Westport, Conn., benefit and insurance product-development firm.

In a larger self-insured company with expected health costs of \$1 million to \$1.25 million, management might want to "lay off anything over that to the insurance company," says Harrigan. For a premium of \$25,000 to \$30,000 a year, the insurance company would be liable for all health claims over \$1.25 million up to some limit, such as \$3 million.

How the policy deals with hospitalization and whether it allows for flexibility

are also key points. That means having an insurance-company case-management team to review serious cases and consider alternative treatments with doctor and patient. The alternatives in an AIDS case are administering to the patient at home and, sometimes, in a hospice, a facility for the terminally ill.

## For More Information

*AIDS, HIV Mortality and Life Insurance*, by Michael J. Cowell and Walter H. Hoskins. Society of Actuaries, August, 1987.

*AIDS in the Workplace: Resource Material* (Second Edition). The Bureau of National Affairs, Inc., BNA Customer Service Center, 9435 Key West Ave., Rockville, Md., 20850.

"I am encouraging employers to contact insurance companies that do offer case management or do offer home care or hospice or both," says Mauro Montoya, legal director for Washington's Whitman-Walker Clinic, a non-profit health organization that takes care of AIDS-infected individuals under a contract with the city.

Adding a package of cost-containment measures that includes case management and alternatives to the hospital "tends to lower your costs right off the bat," says David Garratt, a vice president at the Washington office of Johnson & Higgins HealthGroup. Garratt says immediate premium savings of 3 percent to 10 percent a year are often possible.

Using hospices and home care, San Francisco-based Pacific Bell has achieved one of the lowest health-care costs per AIDS victim in the country—\$35,000.

Chevron Corporation, also headquartered in San Francisco, this year began paying 100 percent of hospice and

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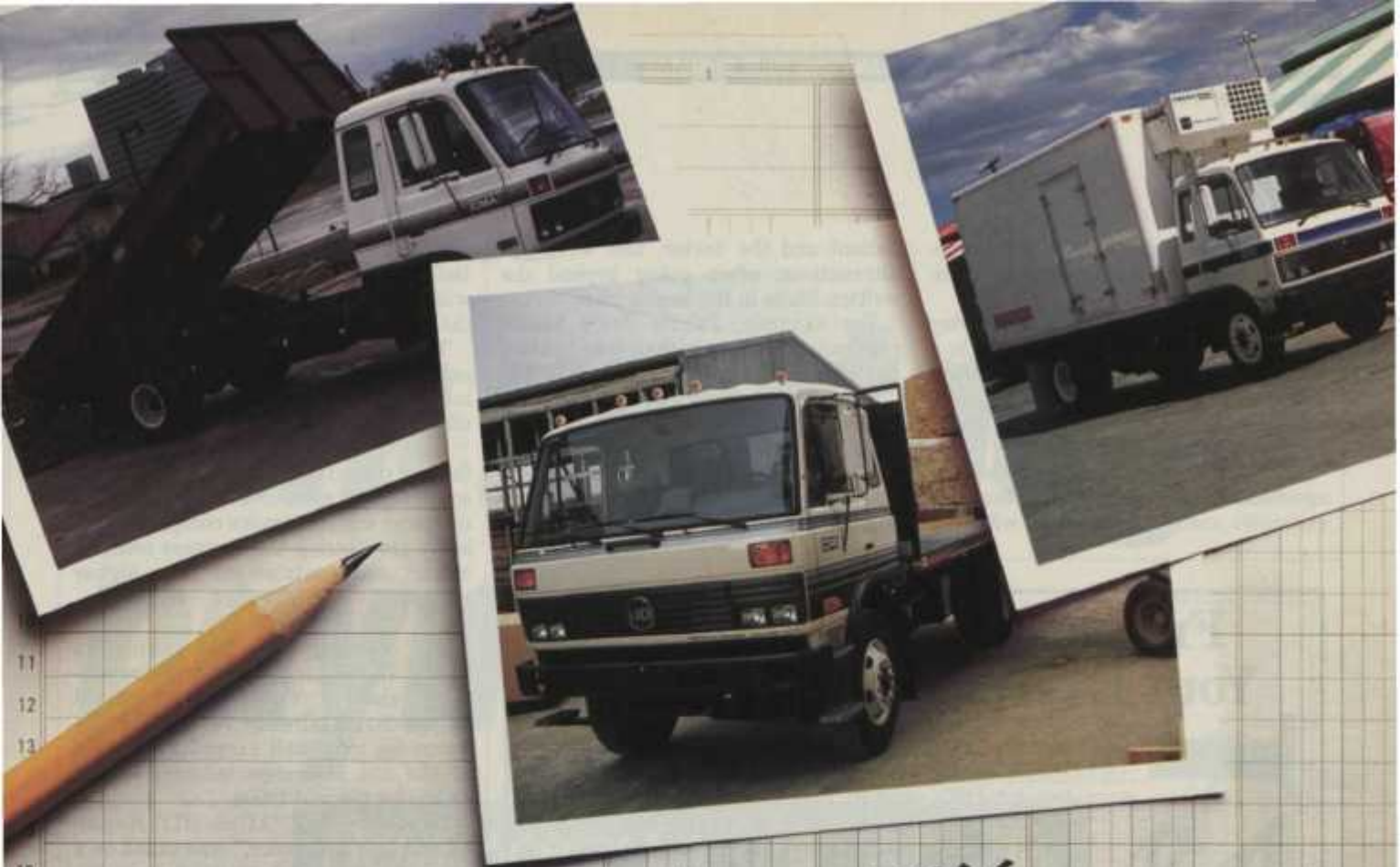
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## MANAGING YOUR BUSINESS

## Preparing For The Worst

home-nursing expenses for plan members who have been diagnosed as terminally ill.

"By getting him out of a \$500-a-day bed in a hospital and putting him in a home environment, I think you're doing both the company and the employee a benefit," says Dr. Robert Swencicki, medical director for Chevron.

Both companies employ case-management teams to go over potentially expensive medical treatment with the

patient and the doctor, and work out alternatives, often going beyond the written limits in the health plan.

For example, Pacific Bell's health plan calls for no more than four hours a day of in-home nursing care.

The case-management team might look at a particular AIDS-infected individual's needs and say that if he could get more home nursing, he could avoid going back into the hospital, says Neal Austin. Austin is staff manager for

health-care cost containment at Pacific Bell. "We'll go beyond what the plan will pay, because we'll save money in the long run," says Austin.

The small-business owner, Austin says, should "look at case management. Every major insurance company offers it."

Lately, the small-business owner is finding that if he doesn't ask for cost-containment measures, the insurance company will. Insurance companies typically are offering the business owner a choice: cost containment or a higher premium.

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According to a new study by Worcester, Mass., actuary Michael J. Cowell, AIDS-related deaths already covered by life insurance may well exceed 10 percent of the life insurance industry's total claims by the mid 1990s.

Cowell's study, "AIDS, HIV Mortality and Life Insurance," was based on a conservative set of statistics from the Centers for Disease Control—that 1.5 million Americans may be infected with the virus, and that only 15 percent of them would get fully developed AIDS after five years.

But recently, both the CDC and the U.S. Surgeon General are supporting the prevailing medical belief that closer to 100 percent of those infected with the virus will see their immune systems wrecked by the ailment and then die from infections they otherwise wouldn't have caught.

So, if anything, Cowell's resulting figures for life insurance liability are probably low.

The U.S. life insurance industry already has paid out several hundred million dollars on AIDS-related claims. At the end of 1986, Cowell says, about \$20 billion of individual and \$15 billion of group life insurance in the United States had been written on the lives of AIDS-infected individuals.

Cowell, an actuary at State Mutual Life Assurance Company of America, did not try to estimate the billions of dollars of AIDS-related claims that may result from the fortunate possibility that drugs and treatments now being developed may extend the lives of AIDS victims well beyond the current 2.1-year average.

Says benefit consultant Nancy Jones: "Good news on AIDS treatment is going to increase costs." ■

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IBM PC XT™/286 (6/0)	1.32	1.33	1.03
IBM PC AT (8/1)	1.37	1.17	1.40
IBM PS/2 Model 50 (10/1)	1.71	1.70*	1.19*
IBM PS/2 Model 60 (10/1)	1.72	2.02	1.67

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Source: InfoWorld Hardware Benchmark System, as published in InfoWorld May 11, 1987



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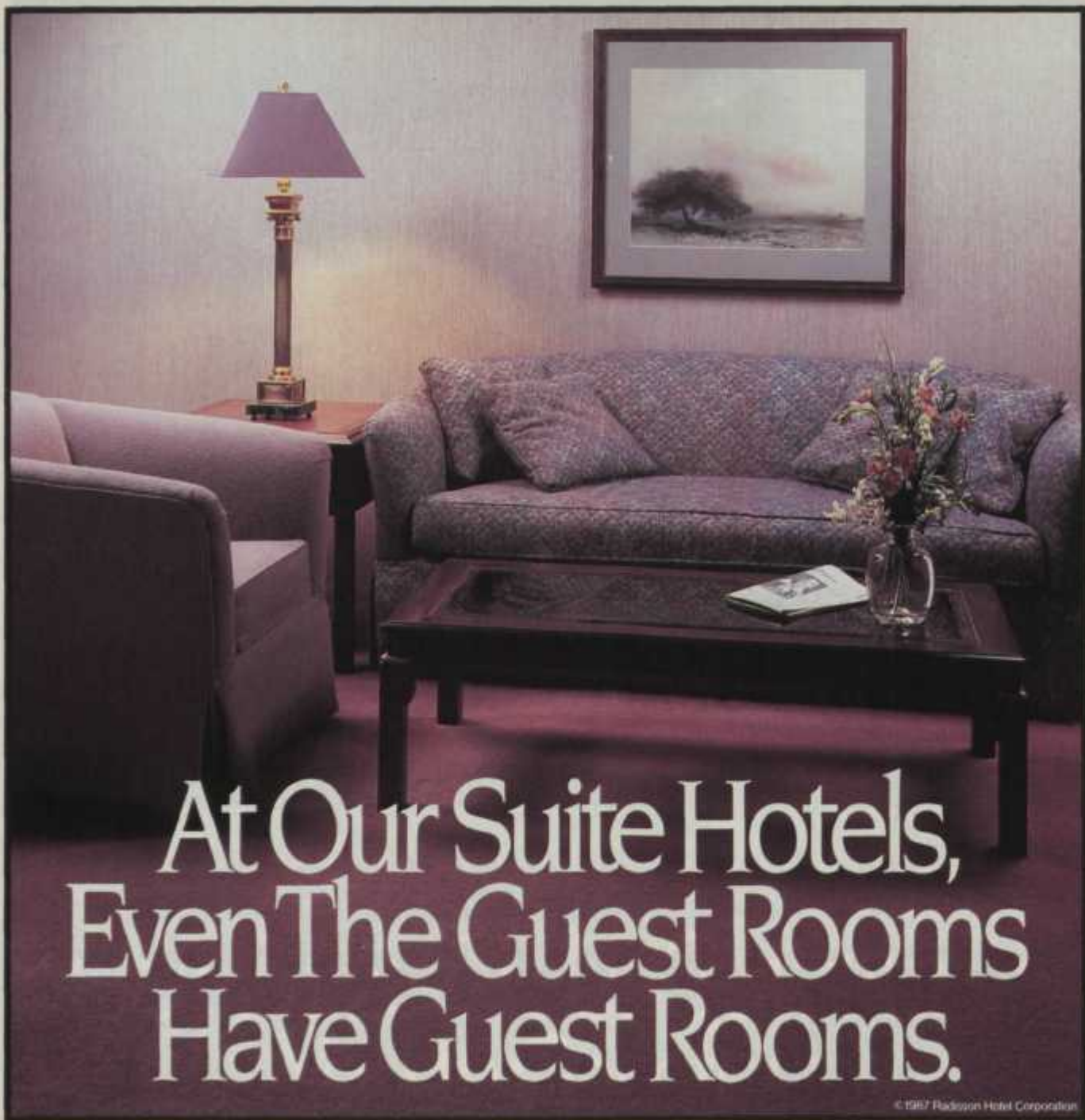
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# Taking The Franchise Route

*If you thrill to the idea of entrepreneurship but agonize over flying solo, a franchise may be for you. But study before you buy.*

## The Franchise Difference

By Nancy L. Croft

**W**hen most people hear the word "franchising," they think of McDonald's ubiquitous Golden Arches. But nearly every kind of business imaginable—from ceiling cleaners to pet-sitting services—can be franchised.

There is a franchising boom going on out there. According to the U.S. Department of Commerce, franchised companies accounted for 33 percent of all retail sales last year and will employ more than 7 million people by the end of this year.

Why all the interest? Simply put, franchising can be an extremely efficient method of marketing and distributing products or services. If a successful business owner wants to expand to different locations, but cannot possibly oversee the operation of all of them, he may choose to franchise his business. When he does, the owner (franchisor) sells rights to other individuals (franchisees) to use his store name and business system, although the franchisee owns his individual franchise.

"The power of franchising is indisputable," says Tony Desio, founder of Mail Boxes Etc. USA. "It gives the little guy the opportunity to have and run his own business and still have the advantages of being part of a chain."

For this privilege, the franchisee pays an initial franchise or license fee (which can range anywhere from \$5,000 to six figures, depending on the type of business and overhead), periodic royalty payments based on a set percentage of the franchisee's sales and usually an advertising fee. The required fees generally include management and production training; site evaluation; marketing; accounting and bookkeeping assistance; discount prices on supplies; and product research and development.

In return, the franchisee has the security of knowing his or her business has been pretested, there is a support system to rely on, and the chance of success is greater than that of an entrepreneur starting out alone.

*Jani-King franchisee Peter Tana: Don't expect the franchisor to do it all for you, and be prepared to be flexible.*



PHOTO: TOM EMMERSON-BLACK STAR

Experts warn, however, that owning a franchise is no guarantee of success. "Franchises don't work on automatic pilot," says Robert E. Kushell, a Glen Cove, N.Y., franchise consultant. "Just because you have bought a name franchise is in no way suggestive that you're not going to work your butt off."

Franchisors, he says, "usually do a very capable job of teaching you the basics of their businesses. Where they sometimes don't do a very good job is in giving you service beyond the basics in keeping with your stage of maturation and growth." Successful franchisees continue to push their franchisors for

more information and better ideas.

Peter Tana, who bought a Jani-King janitorial franchise in St. Louis, is just such a franchisee. "When I looked around for a franchise, I realized the franchisor can't be everything to everybody," he says. "I evaluated what they [the Jani-King support staff] could and couldn't do for me. You have to be flexible. You pick up where they leave off."

Though franchisees are largely responsible for the success of their businesses, there are federal regulations to protect them from franchise scams. The Federal Trade Commission Franchise Rule requires every franchisor to provide prospective franchisees with an extensive disclosure document before franchisees sign any contract agreements. A disclosure document includes information on required franchise fees, any bankruptcy or litigation history of the company, a financial statement, earnings claims (if the company makes them) and how long the franchise agreement will last. Some states impose additional franchise regulations.

As with anything, buying a franchise is not for everyone. "There is a misconception that buying a franchise is good for entrepreneurs," says Byron Boothe, chairman of Target, Inc., in Pleasanton, Calif., which publishes newsletters and holds seminars of interest to small business. Boothe, who has been on both sides of franchising, sold his multi-million-dollar video franchise, Poppingo, to National Video last year. Becoming a franchisee "is a terrible business for entrepreneurs because they don't like to be told what to do," he says. "A really good franchisor has a good cookbook. If you [the franchisee] follow the recipe, the business will work."

Beware the franchisor who allows a franchisee to do whatever he wishes, says Les Rager, of Rager, Hardage & Company, a Roswell, Ga., franchise consultant. The success of a franchise depends on its being the same everywhere, on its being recognized by the consumer. If the franchisee changes the formula, both franchisor and franchisee lose the benefits of the system.

For a list of publications on franchising, write to: International Franchise Association, 1350 New York Avenue, N.W., Suite 900, Washington, D.C. 20005.



## 1988 FRANCHISE GUIDE

National Video has grown more specialized in the kind of franchisees to whom it will sell a franchise.

Instead of individuals, investment groups are the major buyers. The reason? High start-up costs.

## Narrowing The Field

By Meg Whittemore

Although franchising is a chance to become part of a rapidly expanding organization with name recognition, experts advise caution and thorough investigation before making an investment.

Which franchise should you buy? "Be sure you choose a field that mirrors your professional and personal strengths and interests," says Robert E. Kushell, a Glen Cove, N.Y., consultant who advises investors on franchises.

If you are a gourmet cook, for example, think twice before purchasing a franchise specializing in automotive repair. If sports and outdoor activity are important to you, says Kushell, purchasing a fast-food restaurant might prove too confining. "Determine what

Meg Whittemore is a Washington freelance writer who specializes in franchising.



kind of work you enjoy," he says, "and look for a franchised business that reflects your preferences."

When Marty Riddle of Lawrence, Mass., realized that his current job was not paying enough to meet anticipated expenses, he began shopping around for a franchise. "Teachers don't generally make a lot of money, and with college tuition for my children coming up, I was ready for a change," says Riddle.

"We looked at a number of different offerings and finally settled on a MAACO franchise. But I had spent my career teaching English and social studies, not analyzing [automobile] painting and repair work. So I was very concerned that the franchisor had a strong training and operations program for its franchisees. If the franchisor does its job right, then the learning curve will be significantly reduced, and the money will start coming in on the first day you're open," Riddle says.

Some franchisors look for experience in franchisees. Donald Marks, CEO of Rent-A-Wreck, a Los Angeles-based franchise that rents used cars and trucks, prefers franchisees with a background in automotive sales or leasing. "It makes it easier for us to augment their training if they've had the automotive background," he says.

Over the past 10 years, however, franchisors have witnessed the emergence of a less industry-specific franchisee.

According to Ron Berger, CEO of National Video, Inc., in Portland, Ore., the makeup of the "typical" National Video franchisee has changed dramatically. The early franchisees were usually computer salesmen, plumbers or bookkeepers, he says. "They were employees who simply got tired of working for somebody else and invested their \$20,000 or \$40,000, got a matching loan and opened."

A National Video franchise package today costs from \$150,000 to \$450,000, so "we've priced ourselves out of the market for those people," Berger says. As a result, National Video franchisees are frequently investment groups and people who have been successful in other businesses, Berger says.

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ed growth rates, market demand, local demographic data and the position of the product or service in its life cycle.

"We looked at franchise offerings in over 12 different industries before buying a Lawn Doctor franchise," says Scott Holbrook of Ogden, Utah. "It's very important to study market trends as well as individual companies. I'd hesitate to buy a franchise if there is no growth potential in that particular industry."

Once you feel comfortable with a given industry, compare the offerings of the franchisors within that industry.

Franchisors are quick to encourage a potential franchisee to give the business a good hard look before making a purchase.

Some of the information is contained in the franchise offering circular and franchise agreement that the franchisor is legally required to give you. These documents must be provided to you at the first meeting where the sale of the franchise is seriously discussed, but never later than 10 days before the agreement is signed or any money changes hands.

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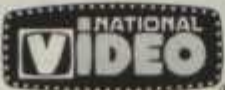
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## 1988 FRANCHISE GUIDE

## Narrowing The Field

"It is important to review the offering documents very carefully as soon as you receive them," advises Skip Freeman of Anchorage, Alaska, who has been a franchisee of Sylvan Learning Centers since 1985. "It's easy to get caught up in the enthusiasm and excitement of opening your own business, but there is usually a lot of fine print in the franchise agreement weighted heavily in favor of the franchisor. You need to sit down with an attorney and review the offering documents page by page, line by line."

The success rate of a franchise can depend heavily on a close working relationship between the franchisor and the franchisee. Carl E. Zwisler, an attorney with the Washington law firm of Cooter & Gell, advises his franchise clients to take a close look at how the franchisees get along with the franchisor. "Franchisors cannot just judge their franchisee-franchisor relationships by the technical or legal obligations," comments Zwisler. "The relationship must be a responsive, continuing dialogue in order for the franchising system to work."

The best way to determine the nature of the franchise relationship is to meet with existing franchisees. "Talk with people who have been with the company over a period of time, and ask them what kind of relationship they have with the franchisor," says Kushell. Ask them what kind of support the franchisor gives the franchisee—and for how long.

Janet Brock couldn't agree more. A franchisee of Docktor Pet Center in Orlando, Fla., since 1969, she advises prospective franchisees to talk to existing franchisees within the system.

"A franchise agreement is very intimidating if read literally," she says. "If you really thought about each provision, you'd probably never buy a franchise. So you need to talk to franchisees to find out what really happens after you've signed the agreement. Our franchisor has really bent over backwards to help us succeed, but you won't necessarily find that written in the offering documents."

The franchisor is required to disclose the names and addresses of at least 10 of the franchisees whose locations are

closest to your planned site. Some franchisees may be reluctant to speak with you. They may be caught up in a conflict with the franchisor, for example, or they may be too busy operating their businesses. If they are willing to meet with you, discuss financial performance, support from the franchisor, local market trends and customer feedback.

What happens if the franchise you want is out of financial or geographic reach?

"Franchisors are becoming more regional and specific in their marketing and expansion efforts," admits Richard Ashman, chairman of the International Franchise Association.

For example, master franchising (offering a state or region to one franchisee for exclusive development) all but excludes the beginning franchisee with limited resources.

And some franchises are limited to a given region. Skipper's, a fast-food seafood restaurant headquartered in Bellevue, Wash., is currently located in 14 states (primarily the Midwest, West and Northwest) and Canada.

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## What It Means To Do Your Homework

By Nancy L. Croft



PHOTO: ED BROBERG

*Shirley Mielke, the first franchisee of Women at Large, never realized how much work it would be. But she's thinking about buying a second franchise.*

For Shirley Mielke, of Sunnyside, Wash., what started out as an errand to buy a pair of tights last year became a franchise-buying excursion. Mielke, who says she weighs well over 200 pounds, had been using an exercise video produced by Women At Large, a fitness center for overweight women. She decided to visit the center in nearby Yakima and ended up buying its first franchise.

Becoming a franchise owner has been an exciting experience for Mielke, but she admits she didn't realize how much work it would be, or how much money it would cost to build her business.

"Most people who buy franchises are really buying a job," says franchising expert Byron Boothe, who recently sold his multimillion-dollar video rental franchise, Poppingo, to National Video. "You invest in yourself instead of working for, say, IBM. There's a big misconception that as a franchisee you can make a lot of money."

In most cases, however, owning a franchise can be more lucrative than working for a corporation if the franchisee is willing to devote the time and energy required to feed the business.

Robert E. Kushell, a Glencove, N.Y.-based franchise consultant, says it is most important that prospective franchisees keep their wits about them

when they are shopping for a franchise. "Don't be so anxious as a prospective franchisee to accept all that is presented to you," he says. "Your initial contact is with a salesman, and his objective makes it very difficult for him to be unbiased."

Shop for a franchise as you would a car or house, Kushell advises. Not only will you be investing a large amount of money, but inevitably you will be spending most of your energy, emotions and social life during the franchise's start-up years.

Boothe says the best way to find out how much money you can really make with a particular franchise is to talk to its franchise owners—and not just the ones the franchise salesman suggests.

Adequate funding is crucial from the outset.

"There are more failures because people are undercapitalized than any other reason," says Gene Stone, chairman of Skipper's, a fast-food seafood restaurant headquartered in Bellevue, Wash.

Mielke, who consulted with an ac-

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## 1988 FRANCHISE GUIDE

## What It Means To Do Your Homework

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countant before signing a contract but did very little homework otherwise, had a rude awakening. "I didn't expect the financial outlay needed for this business," she says. "If I had advice to give someone, I would say go into it well-capitalized."

Over the past year, she has faced some trying times. "It's been a real struggle," Mielke says. "I'm paying the bills—which my accountant said is great—but I've had to be really creative with my advertising." Sunnyside has a population of 10,000—too small a market for such a specialized franchise, she says.

In addition to paying an advertising fee (which pays for the franchise's national advertising), Mielke's contract requires that she pay a certain percentage of her gross income on local advertising.

"I have yet to spend that little," Mielke says. She usually spends three times the set amount.

"I thought it would be all fun," she says. "I didn't know I had to write bills and do bookkeeping. I laugh and tell my accountant, 'You didn't tell me I had to

do this. I was supposed to just be having fun.' I was surprised by how many hours it takes to build a business."

Women At Large, which has 25 franchises nationwide, has steadily become more sophisticated in its franchisee training over the past year, says Mielke.

Being the guinea-pig franchisee has its ups and downs.

"You expect it to be all set up for you," she says. "I wasn't a business person when I came into this, but, boy, have I learned. That's another piece of advice I'd give—that the franchisee have some business background or at least know someone well who does. I have come up against profit and loss statements. I didn't know they existed."

Because Mielke believes deeply in the service she is providing to overweight women, she has been key to the franchise system's growth. As president of the system's franchisee association, she is now offering guidance to other new franchisees and is seriously thinking of buying another Women At Large franchise.



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## 1988 FRANCHISE GUIDE

*From Australia, with curves: Mark Ellacott founded Homerun, Inc., to capitalize on the popularity of softball in the United States.*

## Unusual Franchise Niches

By Meg Whittemore

The idea that "anything can be franchised" may be too ambitious.

But some new entries make that idea sound possible.

Case in point: Homerun, Inc., a franchise offering year-round access to the most popular amateur sport in America, softball. Australian entrepreneur Mark Ellacott got the idea from his native Sydney where indoor cricket is very popular. "We looked at the success of cricket and asked what's comparable in the rest of the world," says Ellacott.

Homerun opened its doors in Baltimore, Md., and Shirley Park, Va., in September, offering league play to everyone including housewives, retirees, public-school students, business people and amateur-sports associations. But mostly, Ellacott hopes to attract families to his facilities.



PHOTO: T. MICHAEL KEZA

"We're trying to revive a good strong family environment where parents and kids can spend time together in a well-controlled environment that is conducive to good healthy fun," Ellacott says.

Depending on the site, the establishment cost for a Homerun facility is approximately \$300,000-\$400,000. That includes renovation or construction costs,

advertising, marketing and a computerized internal-management-control system.

Because of the latter, "Homerun is an ideal situation for an absentee owner," says Ellacott.

Capitalizing on the current trend of business networking—exchanging business leads and contacts—is what American Business Associates (ABA) out of New York intends to franchise up and down the East Coast. "We want to let the professional world know that you don't have to be part of the good old boys' network to succeed," says Jerry Feltenstein, chairman of ABA.

The cost of an ABA franchise is \$25,000, and Feltenstein says running an ABA is really a part-time job. Thirty-member councils are set up and meet bimonthly for the sole purpose of exchanging business leads. Founded in 1983, ABA has 11 councils in New York, New Jersey and Connecticut—all of which are company-owned and operated. Feltenstein envisions an expansion rate of five to seven franchises annually.



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*Prospective franchisees are always advised to talk to operating owners like AlphaGraphics franchisee Rick Ernst of Concord, Calif., before signing any franchise agreement.*

## Financing The Franchise

By Andrew Sherman

No matter how thorough you are when investigating a franchisor and location, the quest for capital can be an uphill battle.

The first step is to determine your total project costs from franchise fees to construction costs to licenses and permits.

Franchising used to be considered an inexpensive way to get into business for yourself, but, like most other things, the cost of purchasing a franchise has increased over the last decade. Today, total start-up costs for a franchise are frequently over \$100,000. Precision Tune, a Beaumont, Tex., franchise specializing in automobile engine tune-ups, costs \$101,000-\$120,000 for a complete start-up package; Docktor Pet Centers, a shopping mall-based pet-store franchise headquartered in Wilmington, Mass., requires \$150,000 for start-up; Hats In The Belfry, a franchise offering over 300 styles of hats, carries a price tag of \$120,000-\$140,000; and \$275,000 will buy an AlphaGraphics Printshops of the Future franchise. At the other end of the scale, Mail Boxes Etc. USA, headquartered in San Diego, is a relatively low-cost investment. Total start-up costs are \$40,000-\$60,000 depending on site location.

How much money will you need? The rule of thumb for the total amount of money needed to purchase a franchise

*Andrew J. Sherman is an attorney with Michaels & Wishner law firm of Washington, where he specializes in franchise legal matters.*

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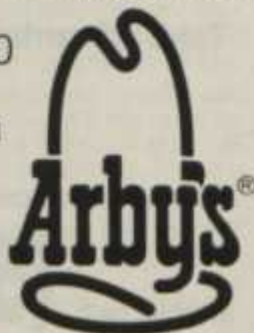
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is initial start-up expenses plus six-month projections. According to franchise consultant Robert Kushell, "You must plan to cover six areas: the franchise sale price; pre-opening expenses; training expenses; business operational needs for the first six months; personal operational needs for the first six months; and emergency dollars."

Normally, most franchisors will expect the franchisee to pay the fee up front. Some franchisors, however, will take a partial down payment and spread the remaining fee, with interest, over several years.

Pre-opening expenses include retaining an experienced franchise attorney and an experienced financial adviser, and travel expenses to visit existing franchisees and, possibly, the franchisor's headquarters. "Don't overlook telephone expenses in calling other franchisees, deposits for rent, telephone and other equipment," says Kushell, "and be sure to budget for any expenses involved in your training."

Budgeting for projected business operational expenses for the first six months is an absolute must, according to Kushell. "Figure your entire monthly overhead times six," he says. "And don't forget to factor in your personal expenses, including an extra fund set aside for emergencies."

Bernard Browning, founder of General Business Services (GBS), a Rockville, Md., financial-management consultant, cites lack of management expertise and short-sighted business planning as two reasons for early failures. "People will call on our counselors for help when their business is already a basket case," says Browning. "They didn't do market research on a particular location before signing a 10-year lease; they didn't do any business planning to determine future cash-flow needs."

No financial source will look at your application unless you have a business plan that includes your management experience, an analysis of the local market, a prediction of the local demand for the goods and services offered, trends in the industry and projected revenues and expenses, a copy of the franchisee's personal financial statement, a copy of the franchise agreement and offering circular, a copy of the lease (if there is one) and a discussion of unencumbered assets that would be available to a lender for collateral.

"A prospective franchisee should take the information given by the franchisor to a team of qualified profession-

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als who really understand franchising to find out what it will actually cost to get your doors open for business," says retired Col. EmRoy Gehlsen, an Arby's franchisee in Washington, D.C. "And the time to do this is not after you've signed the franchise agreement. Rather, you should do your homework on financing issues first. I had to learn this the hard way. Finding all the money I needed was no easy task. I had to borrow money from my mother, sister, son and cousin, over and above the equity in the corporation and the SBA loan I received from Allied Lending, just to meet my budget, which had been revised at least 10 times since we first signed the franchise agreement."

The start-up franchisee, when determining total project costs, working capital requirements and anticipated revenues, should take into account all fees payable to the franchisor (initial franchise fee, training costs, consulting fees, royalties, etc.) as well as rent, insurance, equipment, inventory, legal and accounting, advertising and marketing, license and permit fees, remodeling and leasehold improvements, utilities, payroll, office and administrative and debt-service costs.

Always start your search for capital in your own backyard. Friends, relatives and co-workers may be a source for equity capital in exchange for interests in the business, or at least be willing to pledge collateral that will enable the corporation to borrow additional funds. Local banks where you have already established a relationship and reputation should also be contacted before other lenders.

The second natural place to look for funds is within the inner circle of people who will have a vested interest in your success. For example, some franchisors will offer direct financing to their franchisees, and others have strong working relationships with regional and national lenders. In addition, landlords, construction companies, equipment suppliers and related vendors may be interested in offering some type of financing assistance or maybe even take an equity position in your business because they have a financial interest in your long-term success.

Absentee ownership and partnerships with financial investors also are proving to be effective for franchisors. "We welcome those individuals who want to be financial investors and who are willing to share part of the business with a good operating partner," says Gene Stone, chairman of Skipper's, a

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## 1988 FRANCHISE GUIDE

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# The Family Business

An estimated 80 to 95 percent of U.S. businesses are family-owned. Nation's Business introduces this periodic section dedicated to the health of these vital enterprises.

## GETTING MOTIVATED

### A Family Needs A Mission Statement

By John L. Ward and  
Laurel S. Sorenson

Why does succession have to be so painful?

Can our sons and daughters work together?

Will our family business last?

These questions worry every family business. They come down to one issue: Is it worth it?

In times of doubt, it's helpful to open the desk drawer and take out a piece of paper that says, "Yes! It is worth it," and goes on to explain why.

This piece of paper is a *family mission statement*. Separate from the business mission statement, it lays out your goal—your dream, really—of working together as a family in business. It spells out the benefits. And it pledges your family to make the dream come true.

To be sure, coming up with such a statement isn't easy. Sometimes, even deciding to stay together in business is difficult. Uncomfortable questions must be asked—and answered—to make that happen. When should the business pass from one generation to the next? Who is welcome in the business? What qualifications must they have? What compensation do they deserve? What titles should be bestowed? How should ownership be distributed? What returns do owners deserve? How shall business decisions be made?

Any of these issues may spark a debate that will threaten your dream. Yet if your family has a commitment, you have a much better chance of resolving the debate than a family without it. A mission generates enthusiasm. It en-



ILLUSTRATIONS: GARY YELDELL

*Getting your family to agree on a set of goals brings you closer together and generates commitment to your business.*

courages solutions. And it diverts squabbles into more productive channels.

"Energies once devoted to sibling rivalry are now put to better use," says a manufacturer of specialty-meat products, who last year spent 16 hours over six months with his wife and four children (three work in the company) to develop the family's mission statement. "We now have a common understanding of the commitment we must have to the business. And we know what each of us can expect in return."

Preparing your mission statement means, first of all, getting the family together after hours in a conference room, the family den or even a vacation retreat. The setting doesn't matter, as long as the atmosphere is casual and the time is not constrained.

The leader of the discussion might begin by summing up the uncomfortable questions outlined above. "Family businesses inevitably have these tensions," he might add. "So this has got to be something we really want to do. Otherwise, it's not worth it. So do we want to do it? And if so, why?"

You can expect family members to exchange nervous glances. A few throats will be cleared. Then comments will start to surface.

Some will be uncertain: *It's a lot of responsibility. I'm not sure I can work for Dad. What if fighting about the business tears the family apart?*

Others will be positive: *I want to work for myself. Let's keep it alive for the kids. I think it's great working together as a family.*

Airing concerns might take more than one meeting. But eventually, your family will arrive at a consensus. Then—if the answer is yes—you can set your dream down in a short document that everyone can refer to in the months ahead.

The specialty-meat manufacturer, for example, took just two sentences to summarize the family's decision. "We have a mutual commitment and obligation to family security and development. Perpetuating the family business will encourage independence and opportunity for self-actualization for all employees—family and non-family alike."

One of the best family mission statements we've seen comes from a family that has been in the newspaper business for three generations. Five sets of parents and all their children met on three Saturdays over the course of a year at a local hotel.

John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago and a consultant to family businesses. Laurel S. Sorenson is a Chicago-based writer. They wrote the book *Keeping the Family Business Healthy* (Jossey-Bass, San Francisco).



# The Family Business

## A Family Needs A Mission Statement

By John A. Granger, Jr.  
President, W.W. Granger, Inc.

For the family business to survive and thrive, it must have a clear mission statement. This statement should define the family's values, goals, and the role of the business in the family. It should also serve as a guide for the family's decision-making process.

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Sticky issues that they examined ranged from developing retirement programs for parents to equalizing voting control among the families. Yet, they decided, strong emotional ties to the paper and to their hometown made the work worth the effort. Two "children" (in their 30s) volunteered to draft the decision as a letter between the generations.

"To our parents," the one-page epistle began. "We resolve to keep our company in the family as long as possible. We ask you to hand down a precious legacy. It's not money. It's not fancy cars and fat salaries. It's an opportunity to maintain a tradition of journalistic excellence."

"You have instilled in us a tremendous pride in our business and in our family. It's because of this pride that we ask you to entrust us with this valuable inheritance."

The signatures of 19 of the younger generation lay below the last line.

You don't have to be a professional writer to get your point across. If your family agrees the business is worth the effort, just say so, in a brief letter to yourselves. Explain why. Then ask everyone to sign.

And keep in mind that it won't work to copy some other family's statement. The process you go through in coming to agreement on your own is more important than the words you finally commit to paper, because it usually draws family members closer together. Once you've agreed to a mission statement, you'll find that it gives you energy and hope for years to come.

*With outside board members looking over your shoulder, you become more professional in the way you run your company.*

## MANAGING

# Ten Reasons For An Outside Board

By Sharon Nelton

If you want a better business, get yourself an outside board of directors.

Léon A. Danco, founder of the Cleveland-based Center for Family Business, has long urged business owners to create a board not of family members and professional advisers but of "risk-taking peers"—that is, experienced business people who can help you take your company where you want it to go. They should have no connection with your company so they have no personal stake in decisions.

For a recent by-invitation-only seminar on the Kohala Coast of Hawaii, Danco brought four family business owners together on a panel to discuss the benefits of having an outside board. The panelists were Leo J. Hawk, Superior Metal Products, Lima, Ohio; Merrill M. Parsons, Excel Foundry & Machine, Inc., Pekin, Ill.; Karl A.A. Reuther, Reuther Mold & Manufacturing Company, Cuyahoga Falls, Ohio; and Clayton L. Mathile, The Iams Company, a pet-food-manufacturing firm in Dayton.

Here's what the panel said an outside

board of directors does for you:

**1. Helps you grow as a manager.** With a board looking over your shoulder, you become more professional. "A board meeting requires the discipline of timely preparation," says Reuther. "The information has to be orderly, precise, logical and, above all, honest." Putting it together, he adds, forces you to learn what's really going on.

**2. Saves you from mistakes and helps you make better decisions.** Board members offer a different perspective and may (rightly) stop you from moving in a certain direction. If you can't sell an idea to the board, don't buy it yourself, cautions Reuther.

**3. Clarifies and refines your overall business strategies.** A board helps you understand what makes your business successful, observes Parsons.

**4. Helps assure the continuity of your company.** It does so by increasing a company's chances of success and helping with succession planning. "I like to say that the board really is your insurance policy that the business will survive," says Mathile.

**5. Serves as a third-party arbitrator.** When brother fights against brother or a father and son are at odds in a company, a board can help resolve differences.

**6. Makes your managers more professional.** They know you have to answer to somebody else, and they take setting and meeting objectives more seriously, reports Mathile.

**7. Helps you attract good employees.** Recruiting good people is often a problem for family businesses. But if you have a board, potential employees will be more convinced that you are committed to having a well-run company.

**8. Creates new opportunities for your business and gives you access to a network of people you might not otherwise have.** Board members often have contacts not available to you, or they may know of markets you might not have thought of. Or, if a board member does not have the answer to a vital question, he may know someone who does and give that person a call. "So for the little bit of expense that you incur, you get a significant amount of mileage and leverage," says Mathile.

**9. Boosts your self-assurance.** Because his board forces him to be a better manager, says Mathile, "I have more confidence that I'm doing the right things."

**10. Gives you a pat on the back.** CEOs need love and recognition, too, and as Reuther points out, a board of-



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## THE FAMILY BUSINESS

fers "someone to show off in front of when I've done something really special. It's a time to receive applause."

If things don't work out with a particular board member, you can fire him. In fact, you can fire the whole lot and start over.

But, chances are, your board will work well with you. The panelists said their board members rarely—in some cases, never—miss meetings, and that they are always well-prepared. And they can be called by phone anytime for between-meeting advice. Pay ranged from \$500 to \$3,000 per meeting.

In the three years since he's had an outside board, says Leo Hawk, his company has "matured."

"Our sales are way up. Our profits are way up. Our consternation and our internal conflict are almost completely gone," he says.

If the \$50 million-a-year company had had a board 10 years ago, he reflects, "we'd be at least four times the size we are today. And we'd be a helluva lot more profitable."

### ... And One For Not Using Your Spouse

Should your spouse be on your board of directors? Probably not, according to Katy Danco. Even though she co-founded the Center for Family Business in Cleveland with her husband, Léon, and is a stockholder and works part time in the company, she is not on the board.

She feels she does not qualify as a "risk-taking peer" and says that one board seat can be filled by a more knowledgeable person because she is not occupying it.

"Léon can have my opinion anytime he asks for it. As a matter of fact, Léon gets my opinion whether he asks for it or not," she says.

Instead, Katy Danco is a "guest" of the center's board. She receives the agendas and sits in on all the meetings and finds that the board includes her in its discussions.

If she has a problem, such as Léon overworking, she can go to board members and discuss the matter privately. Says Danco: "They'll bring this up at a meeting, and I don't become a nagger."

For families with children working in the business, she suggests having a family meeting following a board meeting. "At that time, you will be able to discuss things that the board brought up that pertain to the family," she says. "That's a very good way to keep your family current."

### For The Next Generation

"State-of-the-art ideas" for those with leadership roles in the family firm is what the Wharton School of the University of Pennsylvania aims to provide through an ongoing series called Wharton Seminars for Family-Held Businesses.

Set for November 8-12 in Laguna Beach, Calif., is a session called "The Next Generation of Family Members in Family-Held Businesses." The program covers such topics as how to develop a career in the family firm, and how to be respected for the contribution you make. Participation is limited to younger family members and their spouses.

Wharton also offers seminars for chief executives and senior officers of family businesses and for women in family firms. For a schedule and further information, write to: The Office of Executive Education, The Wharton School, University of Pennsylvania, Philadelphia, Pa. 19104-6359; or call (215) 898-1776.

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### Worth Noting

If you are a professional who works with family firms, there's a new organization aimed at helping you do a better job. Called the Family Firm Institute, it recently launched its first membership drive for lawyers, accountants, management consultants, financial managers, bankers, family therapists, academics and others who serve family businesses. The institute hopes for 300 members during this first phase.

FFI sponsors conferences and study groups and acts as a clearinghouse for activities, research and resources in family business. It plans to start publishing a quarterly journal, *The Family Business Review*, by early winter.

"The Practice of Working with Family Firms" is the theme of the organization's first national conference, to be held December 3 and 4 at Brigham Young University in Provo, Utah.

For information, write or call the Family Firm Institute, P.O. Box 98, Glenshaw, Pa. 15116, (412) 922-8799.



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# Moving Toward A Market System



**T**here is a small room in Hungary's Budapest Bank, Ltd., where citizens last year bought more than \$256 million in bonds. Hungarian officials aren't prepared to call this behavior "capitalism"—the firms are government-owned. On the other hand this lending of capital for interest income is not the "socialism" that Karl Marx had in mind.

It is hard to describe precisely the economic phenomena in this evolving country, where almost 40,000 private enterprises have mushroomed across an otherwise socialist landscape. "Mixed economy" is how Hungarians term their activity.

They are proud of their leadership in Eastern Europe in moving toward market-based economics. They started this trend almost 20 years ago, when they proclaimed their New Economic Mechanism supporting decentralization, private initiative, social pluralism and market orientation.

While Hungary's economy remains predominantly socialist and planned, even the limited Western business practices that have been implemented have helped give its 10.6 million citizens a living standard higher than that of most people in Eastern Europe. Budapest's shops are brimming with goods. Well-dressed people bustle about in a scene more reminiscent of the West than the East.

The country is considering expansion of its bond market and even the eventual creation of a stock market. And it is adopting some other aspects of a market system—personal income and value-added taxes.

Hungary's economy is by no means trouble-free, however. Hit last year with declining world commodity prices for its foodstuffs and a generally declining export market, the trade-dependent Hungarians must tighten their belts. A new government austerity program aims to bring Hungary's current account deficit under control at the same time that it presses forward with modern economic changes.

Those changes have broad popular support.

Says a recent U.S. Commerce Department report on Hungary: "A national consensus exists that the root of the country's economic problems is structural, and a reluctant leadership faces increasing pressure to sharply accelerate the pace and scope of market-oriented reform."

The Commerce study further states that "a strategic location in the heart of Central

*The assets that Hungary offers foreign investors include the highly skilled work force represented by the factory employees shown in the top photo and the researchers shown*

*below. An American familiar with the country says Hungary has "an outstanding research and development capability."*



PHOTOS: BILL WEEMS—WOODFIN CAMP



ON THE COVER, PHOTOS: ALVIN REINISER—CONTACT PRESS IMAGES; ADAM WOOLFITT—WOODFIN CAMP; HUNGARIAN CHAMBER OF COMMERCE



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**H U N G A R Y**

Europe; a dynamic, well-educated population; and a recent history of government policies favoring exports have enabled this small country to improve its standard of living through foreign trade, which today accounts for about 55 percent of gross domestic product."

Hungary's economic policy puts high priority on foreign investments within its borders, and the participation of the U.S. business community is a particular goal. Enterprising American firms, Hungarian leaders say, could combine Yankee technological know-how in production and management with cheap, skilled Hungarian labor and the country's proximity to huge European markets into highly profitable ventures. Joint venturing with Hungarians has already proven lucrative for numerous West German, Austrian, Japanese and Italian companies.

**D**oing business with Hungary is easier than most American firms probably realize. Richard L. Leshner, president of the U.S. Chamber of Commerce, was impressed during his July visit to Budapest with the programs of the Hungarian Chamber of Commerce. That organization, he found, stands ready and eager to facilitate exports, imports or investments between American and Hungarian companies.

The American business leader encouraged Hungarians engaged in private enterprise. He declared later to the Hungarian press: "I am very much impressed with the vitality and determination of the Hungarian people and the Hungarian business community. . . . This is a country I know we can do business with."

Tamas Beck, president of the Hungarian Chamber of Commerce, is a leading proponent in Hungary of greater business ties with the United States. Under his guidance, the Hungarian Chamber has become a vigorous catalyst for modern business practices. He is particularly interested in developing relationships with cutting-edge small and mid-sized American firms.

"In Hungary there are a lot of small companies," says Beck. "It is the same in the States. Big firms can find their own way here without our help. But if you want the small firms to do business, you must bring them together. If small foreign firms contact us, we will help them find the right connections. We have very well-trained people for this purpose." (For further information, contact: Hungarian Chamber of Commerce, Economic Advisory Board, P.O. Box 106, Budapest, H-1389, Hungary. Phone 533-333. Telex 22-4745.)

The Hungarian government supports the foundation of joint ventures as being in

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## H U N G A R Y



## THE MOST USEFUL GUIDE FOR DOING BUSINESS IN HUNGARY

This comprehensive directory, "Managers in Hungary," has been compiled and published by the Hungarian Chamber of Commerce. The publication is intended to help foreign businessmen establish and develop business contacts in Hungary.

The book contains professional biographies of 2,400 leading executives of companies and co-operatives affiliated to the Chamber. The biographies supply you with the following information: company name, position, specialty, languages spoken, address and other relevant information.

An appendix gives the names of member companies and lists the executives of each company.

The price is US\$ 55 per copy.

For further information please contact the Hungarian Chamber of Commerce, Information Department.

**Correspondence: H-1389 Budapest P.O. Box 106, Hungary. Or Telex 22-4745 MKKH.**

accordance with its long-term economic strategies.

The activities of such associations—whether they are manufacturing, commercial or service industries—are considered useful. Most aim for the development of the technical or economic level of the nation; promote the introduction of advanced techniques, technologies and organizational methods; enlarge the market system; increase exports; or contribute to obtaining some other advantage in the foreign-exchange balance.

The statutory rules have made the establishment and operation of such ventures attractive for the founding partners.

The Hungarian partner finds joint ventures attractive because:

- The relevant share of profit, after preferential taxation of the joint venture, can be placed directly in an undivided sharing fund.
  - Knowledge of advanced techniques, technology, management and organizational know-how is acquired.
  - Contacts with the foreign partner help enlarge the marketing organization and sales outlets.
- The foreign partner benefits because:
- Skilled, easily trained, cultured, disciplined executives and workers are available—at relatively low wage levels.
  - The employment of such a work force means transferred techniques and technology.
  - Higher net returns are obtained after taxation than by capital outlays elsewhere.
  - There is greater potential for market expansion.

**T**he processes for establishing joint ventures in Hungary—permits, incorporation, registration—have been simplified. And licensing is carried out in one step.

Application for a preliminary-negotiation permit is no longer required, but there has to be notification of intention. Regardless of the place of business, the Metropolitan Court is solely responsible for the registration of the firm.

State funds may now be granted to joint ventures so that the Hungarian founding partner's lack of capital can be eased. The Hungarian founder can also be granted credits under favorable terms.

The ministry of foreign trade has simplified the general provisions of granting foreign-trading rights. Accordingly, the joint venture is now in an easier position to obtain a general license to export its products and services.

With a view to strengthening the foreign parties' security, the government is negotiating with several countries to conclude

agreements on investment protection.

A number of American firms, large and small, are already pioneering in Hungary with promising results. General Motors has for years been equipping some of its trucks with axles made by RABA in Hungary. Eli Lilly and Company has been joint venturing with Hungary's BCR since 1981. The two firms are operating a plant that manufactures agrochemical products to enhance the development of cattle and poultry.

Hungary is also opening its services market to American firms. Citibank last year began a joint venture with the Bank of Exchange and Credit Ltd. in Budapest, one that will provide financial and entrepreneurial services for foreign trade activities. The bank, known as Citibank Budapest Rt., already has assets exceeding \$200 million.

The international law firm of Baker & McKenzie, based in Chicago, became the first American office of its kind to hang out a shingle in Hungary. The firm's investment is a genuine expression of confidence that there will be plenty of business in the future for Americans and other Westerners in Hungary.

There is a feeling in Hungary that the economic- and political-reform movements in the Soviet Union will lead to freer trade across the borders of Eastern European countries.

Lajos Schmidt, a senior partner in Baker & McKenzie, sees hope in these developments: "Hungary, with 10 million people, is an interesting market because of its reasonably priced, highly skilled labor and its high level of education resulting in out-

## Seminars Scheduled

The Hungarian Chamber of Commerce will hold seminars in the United States to boost U.S.-Hungarian trade and investment activity.

The delegation of Hungarian officials and business leaders will visit Boston on November 9-10; Atlanta, November 12-13; and Denver, November 16-17.

At each seminar, members of the Hungarian group will explain various aspects of their country's business climate and then meet individually with American business people.

The Chambers of Commerce of Boston, Atlanta and Denver may be contacted for further details.



# OPPORTUNITIES FOR JOINT VENTURES IN THE HUNGARIAN ELECTRONIC INDUSTRY

*Restructuring of the Hungarian economy and more specifically that of the industry therein has become recently the prime concern of Hungarian economic policy. In the interest of increasing the efficiency of the open and largely world market oriented economy Hungarian industry attributes outstanding importance to the development of closer forms of international division of labour and to the technology transfer arising from joint ventures and from import of working capital.*

Ample opportunities for joint ventures and exploration of areas of mutual interest with foreign partners are encouraged by the very favourable conditions of operation guaranteed by new Hungarian laws.

The Hungarian Government attaches primary importance to establishment of ventures involving foreign participation in the electronic industry. As a result a complete exemption from corporation tax is granted in the first five years following formation of a joint venture. From the sixth year onward, corporation tax amounts to a mere 20% of the taxable profit.

Backed by the highly qualified Hungarian workforce and their familiarity with state of the art technical systems as well as by expertise in individual technologies — e.g. in oil and gas industry, in energetics, motor diagnostics, geophysics, medical therapeutics — Ministry of Industry plans to make the most of the already considerable export markets in the form of joint ventures representing mutual interest.

The updating of the electronic industry occupies a prominent place among the preferred branches of the overall industrial restructuring program supported also by the financial resources of the World Bank. Connected with the projects in progress, the World Bank project under preparation will focus, beginning in 1989, on the development of the Hungarian electronic industry, on the updating of its infrastructure and

quality assurance system. Several segments of the electronic industry have already played important roles in modernizing the economy while at the same time creating considerable export, mainly toward the Soviet Union and other East European countries.

The Hungarian Ministry of Industry recommends the following areas for the establishment of government backed joint ventures where partners can form close working relationships with experienced Hungarian companies of all sizes characterized by, among other things, a common desire to utilize the opportunities presented by a highly qualified workforce.

- In the manufacture of electronic components there is already some significant progress in the field of passive and hybrid components. The main development aims cover the creation of a component base for surface mounting technology and continued progress in miniaturization.

- In the field of semi-conductor-based active components the most important development objectives include the foundation of bipolar integrated circuit production facilities and the establishment of mounting, packaging and testing systems for the manufacture of CMOS integrated circuits. Favourable possibilities could be provided also by the use of some special basic materials available in Hungary, like aluminium oxide and gallium arsenid.

- Of primary importance in the modernization of the Hungarian electronics industry is the further development of precision mechanical and precision optical technologies. The R&D and manufacturing background thereof is partly given.

- Among the application oriented developments a key area for expansion is sensor technology, the products of which are being increasingly built into the advanced Hungarian medical, precision engineering and automated equipments and which represents an

extremely marketable commodity.

- Among Hungarian medical electronics products modern therapeutic and diagnostic instruments occupy a significant place. Joint development and production associations can be made to fit into the already substantial export trade in medical systems.

- In the field of precision engineering and measurement engineering development of technological measuring instruments and systems is considered essential. In control engineering the adaptation of systems to meet the special needs of users has come to the foreground.

The advanced Hungarian chemical industry represents a significant market for these instruments, equipment and systems.

- In the development of the Hungarian economy a prominent role will be given to informatics. In a large number of areas at well known R&D institutes, at large companies and at small innovative enterprises, sophisticated computer technology — in particular modern peripheries and applications of computer technology in measurement, medical engineering and control engineering — as well as software are those areas where the Hungarian industry can offer opportunities for enterprises, engineering activities and modern technology transfer.

The International Department of the Ministry of Industry is ready to provide more detailed information and to help those foreign partners considering establishing a joint venture find Hungarian partners and become familiar with legal terms.

For further information please contact:  
Mr. Ferenc Kleinheincz  
Ministry of Industry  
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H U N G A R Y

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Hemingway Unimpex Corporation of Los Angeles, a holding company, has had a good experience trading with Hungarians in the chocolate-candy business.

George Hemingway, the chief executive officer, is of Hungarian extraction. He learned the language at his mother's knee and surprises associates in Budapest by easily speaking what is regarded as a very difficult tongue.

Impressed by Hungarians' aptitude with computer software, Hemingway is packaging a deal with Hungarians that will lead to the sale of BUDDHA, medical software that helps analyze cancer phenomena. He is also forming a trading office in Budapest to help others do business in Hungary as joint-venture partners and as traders.

Hemingway says Hungary's chief attributes as an investment haven are: (1) a well-educated work force, (2) an open market, (3) inexpensive labor, (4) receptive officials and (5) high return on invest-

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## Hungarian Facts

*Land:* 93,030 square kilometers (about the size of Indiana).

*Population:* 10.6 million (1986).

*Literacy:* 99 percent.

*Labor force:* 4.9 million (40 percent industry, 20 percent agriculture, 40 percent services).

*State Administration:* People's Republic, with unicameral National Assembly, Presidential Council (acting as collective head of state) and Council of Ministers

*Leaders:* Janos Kadar, General Secretary of the Hungarian Socialist Workers' Party (since 1956); Kaarlo Neemet, President of Presidential Council; Kaarlo Groosz, Prime Minister.

*Political Organizations:* Patriotic People's Front, Hungarian Socialist Workers' Party, membership, 870,992.

*Economy:* Per capita GNP, \$2,200; average annual growth (1982-86), 0.9 percent.

*Natural resources:* Bauxite, brown coal, natural gas.

*Major industries:* Metallurgy, engineering industries, buses, processed foods, textiles, chemicals (especially pharmaceuticals).

*Transportation:* Railroads, 7,767 kilometers; highways, 29,796 kilometers.



ment capital. "In Hungary," he says, "there is an effort to attract U.S. capital because Americans are seen as the most inventive, interesting and entrepreneurial of Western business people."

"There is a complete lack of hostility toward Americans. I've been there many, many times and I have never heard an unkind word."

An important tradition in Budapest, one greatly responsible for the nation's extremely high amount of trade as a percent of gross domestic product, is the Spring Budapest International Fair, held each year in May. This year more than 2,092 companies from all over the globe set up booths. The Budapest fair drew hundreds of exhibitors from the West, including American companies.

**D**espite Hungary's economic difficulties, there appears to be a determination in Budapest to forge ahead with structural reforms that will strengthen Hungary in the future as a world trader.

Peter Lorincze, secretary general of the

Hungarian Chamber, said recently that the benefits of reform will come if Hungarians continue to steer a steady course. The Hungarian economy badly needs imports from high-tech nations like the United States to help it modernize its basic industries. Even if these imports result in unfavorable trade balances with the West for a time, Lorincze says they are vital for industrial restructuring.

Hungarians see joint venturing as an important process leading to the acquisition of better technology, more sophisticated management skills and bigger markets through exporting. Consequently, American partners are highly prized.

Laszlo Borbely, head of the Department of the Ministry of Finance, says his government places "great importance" upon the establishment of new joint ventures. He says Hungary recently streamlined its investment regulations to further ease the entry of more foreign partners.

No longer does the government require that Hungarians own a majority of stock, paperwork has been cut to a minimum, and tax reform has eased the state's bur-

den upon companies. Explaining Hungary's friendly posture, Borbely says, "We know we have to take several steps forward so that our foreign partners will take several steps forward."

In Hungary, there are about 100 operating joint ventures, involving firms from West Germany, Austria, Switzerland, Japan, Sweden, Finland and the United States.

Opportunities for joint ventures span the economy but are particularly good for the services needed to help Hungarians modernize manufacturing, distribution, marketing, tourism and leisure pursuits. The Hungarian Chamber keeps track of joint-venture possibilities and has a good record of matching foreign and domestic partners.

Tourism is one of the brightest potential sectors for investment. Hungary is already a vacation and holiday haven for millions of people from the West as well as the East. There was a 28 percent growth in tourism revenue in 1986 over the previous year. Last year 16.6 million foreigners came to Hungary. Not bad for a country of

With the opening of an office in Budapest in October of this year, Baker & McKenzie, a leading international law firm, is the first foreign law firm with a presence in Eastern Europe. As opportunities for export business, service industries and foreign investors continue to expand in Hungary, the need for specialized legal services grows too. Baker & McKenzie's Budapest office will focus on helping companies interested in investment and joint ventures within Hungary.

"It's a truly innovative move on the part of both the Hungarian government and Baker & McKenzie," says Dr. Lajos Schmidt, the Baker & McKenzie partner who will head the Budapest office. Dr. Schmidt, a native of Budapest and a U.S. citizen, was a member of the bar in Hungary and is a U.S. attorney who is also qualified for limited practice in Frankfurt, West Germany.

"We are extremely enthusiastic about our new venture in Hungary and are pleased to have the opportunity to practice there," said Robert W. Cox, Chairman of the Baker & McKenzie Executive Committee. "We believe that the opening of the Baker & McKenzie office is fur-

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ther proof that the Hungarian government is committed to attracting foreign investment. An office in Budapest will give us the ability to effectively serve clients' needs in the region."

"In Hungary, close to 50 percent of the gross national product is import- or export-generated," says Dr. Schmidt. "The economic and political climate is favorable for the establishment of joint ventures between foreign and Hungarian firms. In addition, Hungarian laws are well suited for international business."

"The Baker & McKenzie Budapest office is

assisting foreign firms as they join forces with Hungarian companies to establish joint ventures or licensing arrangements in Hungary," adds Dr. Schmidt. "We are also working with foreign businesses to negotiate research and development contracts for which a superior human and technical infrastructure exists in Hungary. Our Budapest office plans to assist Hungarian companies in solving their international legal problems, as we do with clients around the world."

International legal problem-solving is nothing new to Baker & McKenzie, the world's largest law firm. With numerous offices and close to 1,000 attorneys located in 26 countries on five continents, Baker & McKenzie combines an extensive international network with local and regional expertise in each office. Historically, the firm has been quick to seize the initiative in providing legal services for clients in new geographic areas of business opportunity. Baker & McKenzie's pattern of strategic growth is based on its philosophy of expanding to locations wherever legal services are required by the firm's broad client base.

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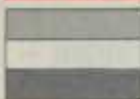
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## H U N G A R Y



*This massive machine is dramatic evidence of Hungary's extensive mining industries and the country's determination to modernize its basic*

*industries to meet the ambitious economic goals it has set, particularly in terms of exports.*

10.6 million people. Almost 4 million of Hungary's guests came from noncommunist countries. Germans, Austrians, Italians, Scandinavians and French are particularly keen on Hungary's charming medieval cities and castles and its scenic countryside. Many are also attracted to Lake Balaton, Europe's largest body of fresh water.

Jaanos Kovacks, deputy director of the Hungarian National Tourist Board, says that tourism has been growing for 15 years, a trend that bodes well for long-term investments.

Hungary practices an open-door tourism philosophy, says Kovacks. "It takes only 15 minutes to one hour to get a visa at the border," he says.

Tourism, says Kovacks, is well-suited to private-enterprise development by Western entrepreneurs because it is a modernizing, changing service field. Tourism firms have done well promoting a great variety of attractions: gastronomic tours, bird-watching, cultural activities and health and medical spas, in addition to the more favored historical and recreational pursuits that draw visitors.



PHOTO: BILL WEEMS—WOODFIN CAMP

Hungarian officials seem strongly dedicated to overhauling their business practices in ways that will make them more competitive. Istvaan Toeroek, undersecretary of foreign trade, says flatly: "We have to eliminate the defects in Hungary's economy to allow industry to produce more." He expects the reform process to continue as Hungary moves to meet the strong eco-

nomic challenges of years ahead.

In 1945, when the Germans were beaten back from the Danube, Budapest lay in ruins. All of its magnificent bridges were rubble at the bottom of the river. The industrious Hungarians have since rebuilt the Danube bridges. Now they are working to erect the toughest bridge yet: the bridge to the West. ■

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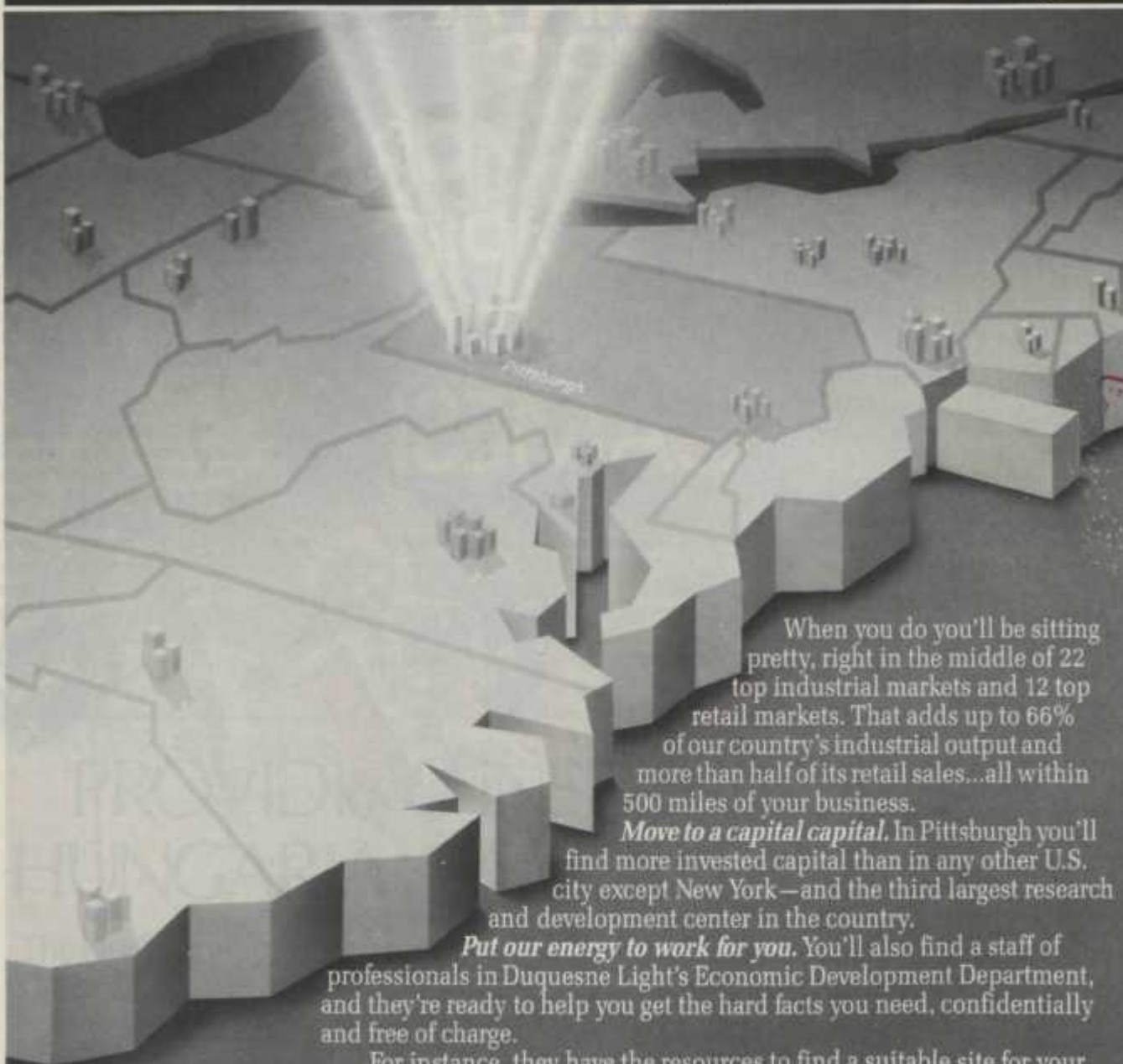
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# A Commitment to the Future

**W**henever a successful American business pauses to reflect on its achievement and tries to define its origins, the answer usually revolves around an ongoing commitment to the future. It's all well and good to know where you've been and be proud of past victories, but the driving force that builds great companies and makes them leaders year after year is a constant striving to innovate, to create better and better products, and find better ways to serve customers.

Management Science America, Inc. (MSA) is an outstanding example of a successful young company committed to innovation, quality, and solving the challenges of the future.

MSA has become the world's largest independent supplier of mainframe applications software. MSA provides applications software to enterprises of all kinds—manufacturing, banking, insurance, health care, education, and government.

Among its 7,000 clients worldwide, MSA counts 75 percent of companies listed in the Fortune 500. The client base includes many of the nation's longest established and best known names, as well as successful new companies which, like MSA, are products of the high tech, information age.

Another measure of MSA's leadership is the growth of its operating revenues—\$193.5 million in 1986—a jump of 28 percent over the previous year.

MSA maintains offices or representatives in 50 offices around the world, and its employees number over 2,600 highly skilled people engaged in research and development, sales and marketing, and customer support.

MSA sees its people as its primary strength. John P. Imlay, Jr., MSA chairman and CEO, comments, "Our people are our most important asset. MSA markets software, but what we're really providing is expertise in solving business problems. At MSA our people are the key."

The ultimate measure of a company, of course, rests on the company's commit-



ExpertLink and Information Expert are registered trademarks of Management Science America, Inc. (MSA).

ment to its customers. "Our success is dependent on our customers' success," says MSA President William M. Graves "and we view our relationship with them as a true partnership."

## Leader in Innovation

The information technology industry, perhaps like no other industry, is driven by innovation and change. From the beginning, MSA has been a leader in innovative breakthroughs, establishing new standards along a variety of fronts.

These include application system integration; micro-mainframe connectivity; sophisticated, yet extremely user-friendly fourth-generation language (4GL) tools; electronic data interchange (EDI: see related story); and expert systems technology.

MSA's ExpertLink®, offered on the market almost a year before anyone else was able to provide similar technology, made it possible for the first time to link the desktop personal computer with the corporate mainframe system. Also, MSA spent five years developing Information Expert® (I.E.), a set of powerful 4GL tools



*Management Science America, Inc.  
(MSA), leads in innovation in the  
software industry.*

*John P. Imlay, Jr., MSA chairman of the board and chief executive officer, with William M. Graves, MSA president and chief operating officer.*



to speed development of its own application software. When MSA offered it to its clients, I.E. became an overnight standard, judged not only in number of users, but among data processing personnel for its sophistication and power in building applications, as well as among users for its ease of use.

In all endeavors, MSA has been driven by a desire for excellence—to offer the best software, the best business expertise, and the best technology to the people who buy its products. A prime example of this commitment to the industries MSA serves can be seen in its commitment to this nation's manufacturers.

#### **MSA Advanced Manufacturing Inc.**

Manufacturers represent the largest segment of MSA's total customer base.

More than 40 percent of all its users are manufacturers—some 3,200 in all. Earlier this year, management created MSA Advanced Manufacturing, Inc. (AMI) as a separate business entity within the corporation to focus exclusively on serving the needs of these customers. And overnight, MSA Advanced Manufacturing became the world's largest independent supplier of applications software to manufacturers.

MSA Advanced Manufacturing designs, develops, markets, and supports a whole suite of software products for manufacturers, known as the Expert Series for Manufacturers. At the core of this suite of products is the AMAPS family of manufacturing resource planning (MRP II) systems designed to fit the specific requirements of a variety of manufacturing environments. These include manufacturers doing discrete, process,

and repetitive production—as well as manufacturers performing strict contract manufacturing, such as in aerospace, shipbuilding, and Department of Defense work.

#### **Mainframe and Medium System Solutions**

Not only does MSA build and market specialized systems for many types of manufacturers, but it also offers different versions for running on various computers or hardware "platforms," including both mainframe and minicomputers. Currently, MSA Advanced Manufacturing offers three different AMAPS systems for manufacturers using IBM mainframes, as well as systems for users on the IBM System 36 and System 38 minicomputer and the Hewlett-Packard HP/3000 minicomputer.



Though its core business grew out of the IBM mainframe market, MSA Advanced Manufacturing is becoming increasingly committed to the minicomputer arena, offering stand-alone systems as well as solutions for large, global manufacturers implementing distributed processing strategies (see related story on The Pillsbury Company).

**B**esides the system superiority of the AMAPS family of MRP II software, MSA also offers a complete line of integrated business management software for managing and controlling the entire business enterprise. Further, MSA is the industry market share leader in integrated financial, logistics management, cash management, and human resources systems, providing expertise and software solutions for every aspect of the business from sales forecasting and order entry to distribution, accounts receivable, and finance.

Says Dennis V. Vohs, president of MSA Advanced Manufacturing: "We are wholly dedicated to providing high-quality products and services to manufacturers. That is our chief—and sole—purpose at Advanced Manufacturing."

Vohs' key focus at present, however, is intently fixed on increasing MSA Advanced Manufacturing's number one share in the manufacturing market. The stake for Advanced Manufacturing in 1987 is estimated to be \$100 million in revenues. The means to achieve this: by offering the best products, the best technology, and the best customer service.

The focus is clear. Over 550 people are dedicated to that task within MSA Advanced Manufacturing. More than 20 percent of corporate revenues in 1986 was invested in research and development, a percentage well above the industry average of seven percent. In addition, MSA maintains an extensive national network of account personnel to work closely with manufacturers once a system is implemented.

Further, an industry recognized state-of-the-art customer service center is staffed at corporate headquarters in Atlanta, GA, ensuring that customers can get the system support they need, when they need it. In addition, MSA maintains more than 40 educational centers around the world, and during 1986 conducted more than 72,000 student days of instruction at these facilities.

MSA Advanced Manufacturing has also expanded its free, national, executive-level seminar program to include over 50 sessions on such timely issues as computer-integrated manufacturing (CIM), just-in-time production (JIT),

## Pillsbury: Making Information a Strategic Ingredient For Success

Pillsbury is one of the most respected names in food in this country as well as around the world. The Minneapolis, MN-based Pillsbury Company is a diversified, international food company that is a leader in both the food-at-home and food-away-from-home markets. Over the years, its product line has expanded out of its origins in flour and baking products to include more contemporary lines in frozen fish, vegetables, pizza, and the all-time global favorite, ice cream. In addition, its restaurants serve more than 40 million meals a week.

The Pillsbury Company today has one clear, distinct corporate goal: to be the best food company in the world. To achieve that goal, says Jim Shadler, vice president of operations for Pillsbury's U.S. Foods Division, the company must maintain its commitment to being a world-class manufacturer. Only by ensuring that its manufacturing operations are an integral part of the company's global strategy for success can Pillsbury achieve its ultimate goal. A key component of that strategy, Shadler states, is employing the most advanced information technologies available.

Says Barbara White, manager of manufacturing systems, U.S. Foods Division: "Integrated management information systems for plant operations are critical to success, to the continued growth and profitability of this company." When the division recently performed a detailed systems study, says White, it discovered that its information systems were not fully integrated, were primarily for historic and financial reporting purposes, and could not provide all the timely information for production to be coordinated with and respond quickly to the needs and demands of the ever-changing market.

Based on this initial analysis, a detailed systems requirements definition for a state-of-the-art manufacturing system was drawn up. One of the key requirements was that the new manufacturing software system be able to run on the Hewlett-Packard HP/3000 minicomputer.

After a careful review of available software, The Pillsbury Company selected MSA Advanced Manufacturing's AMAPS/3000 manufacturing software, an integrated manufacturing resource planning (MRP II) system.

"We were first attracted to AMAPS/3000 by the caliber of companies we found using the software," says Carl Wilson, MIS vice president for the division. "AMAPS/3000 had the flexibility and functionality we needed to run our plants. It also had the technological capability to interface into our overall computer-integrated manufacturing strategy."

The Light Meals/Snack (LM/S) business unit within the U.S. Foods Division was selected for the pilot to install the integrated manufacturing/financial system software. Installation began at the LM/S plant in Fridley, MN in late 1986. Pillsbury linked the AMAPS/3000 system at the Fridley plant to its corporate systems in order to hook into centralized management systems for such key functions as purchasing, financial reporting, cash management, and distribution.

The installation of the AMAPS/3000 system from MSA Advanced Manufacturing will enable the Fridley plant to achieve improvements in overall inventory reduction, raw material scrap reduction, management reporting, improved production flexibility, and plant-corporate communications.

In addition, the system's realtime processing capability and the common database for item master, bill of material, engineering change, and master production scheduling will result in overall improved data accuracy and consistency throughout the system. Most significantly, the system will enable the company to be more responsive to changes in the market.

Shadler says, "Our information strategy is integral to our plan to be the best food company in the world. We have the systems in place now to help us achieve that."



contract manufacturing, and the impact of world-class manufacturing strategies on corporate financial strategies. These seminars are led by the leading industry experts from MSA as well as from some of the country's leading industry analysts from Arthur Young & Associates, Coopers & Lybrand, and others.

### Full Partners with Customers

While MSA has sought the assistance and advice of industry leaders regarding the future of American manufacturing and what it will take to be competitive in the 21st century, it also seeks counsel from the experience of its customers. Through select "Guide Groups" and User Committees, MSA cultivates an open dialogue with its users to assist in designing and developing new applications and enhancements to its software. This unique approach adds further depth to President William Graves' assessment that the success of MSA is ever-dependent

upon the success of its customers.

When Black & Decker, a world-class manufacturer of consumer electronic products, decided to implement a state-of-the-art information management system to support its global manufacturing strategy, it turned to MSA. Black & Decker was one of the first manufacturers to implement the practice of standardization of consumer products on a world-wide basis.

And when MSA Advanced Manufacturing began testing its new Multi-plant Management Module, an enhancement designed to manage and control inventory transfer between plants—whether across town or across the globe—it turned to Black & Decker.

MSA has a solid history of providing solutions for complex business problems such as the shipment of material between plants. It was the first software company to offer master production scheduling, the ability to schedule all component parts in a time-phased manner—a vast improvement over the old order-point

method. It was the first large independent applications software company to offer integrated order processing; the first to offer distribution requirements planning (DRP) software for managing an integrated manufacturing/distribution network; and the first to truly offer software support for repetitive-style production, where production is managed not by individual manufacturing orders, but by rates or volumes of production on the line. It has solved these and a myriad of other problems for manufacturers facing increasing competitive pressure, whether those manufacturers make consumer items such as hand tools or large industrial equipment such as steam turbine generators.

Coppus Engineering, a medium-sized manufacturer of industrial equipment for the petrochemical industry, used the AMAPS manufacturing system to dramatically reduce inventory without reducing customer service. Using the MSA system, this Worcester, MA-based manufacturing company was able to cut

## A Practical Guide to EDI

Each day your organization may disseminate business documents to business partners. This process is critically dependent upon speed, quality, and accuracy. As more and more companies recognize the value of the immediacy of sending and receiving information, they are beginning to refine management practices to better their communication channels. Electronic data interchange (EDI), the computer-to-computer communication of standardized business documents, is rapidly becoming a strategic imperative for many organizations.

For many years, EDI was a comparatively obscure way for trading partners to communicate transactions. Now, led by large corporations that invest extensively in distribution and supply operations, it may become a business necessity.

There are traditionally three parts to an EDI system: the applications software, which allows the computer to perform business tasks such as accounts payable, accounts receivable, purchasing, and order processing; the translation software, which converts data into a standard format; and the communication network, which delivers the information to the proper trading partner.

Pat Tinley, vice president and general

manager of Management Science America, Inc.'s (MSA) Logistics Systems Division, suggests reviewing five key requirements when you decide to implement EDI:

- 1) Request an application-to-application solution — By communicating directly with your trading partner's applications software, you will save time and expense. This approach, made possible by integrating the applications and translation functions, increases productivity and assures better data integrity. Otherwise, you will have to take information from the computer, print it out, and then re-enter it in a different format.

- 2) Require your vendor to know the standards regulating EDI — As yet, there is no single standard for EDI. To avoid having an incompatible system down the road, find a vendor who is familiar with the various EDI standards and committed to making any revisions which might be necessary in your product. A vendor that is active and attends standards meetings will also save you the time, inconvenience, and cost of attending update meetings every few months.

- 3) You'll need universal communication capabilities — Your EDI program must be able to communicate with all

your trading partners *all* the time. The software should provide a machine-readable standard that both works with all third-party service providers and communicates directly.

- 4) Your EDI system should automatically confirm your transaction document has been received — This function, known as exchange certification, saves you, your staff, and your trading partner unnecessary phone calls to track down records.

- 5) Expect extensive support services from your vendor — Look for a company that is willing to help you develop an implementation strategy, provide benefit evaluation, and is prepared to thoroughly educate and support you and your staff as you learn about your EDI program.

According to Tinley, there are many benefits to following this approach. Customer service is improved as response times quicken, productivity is enhanced as clerical efforts are eliminated, and accurate information becomes a viable substitute for inventory.

Most importantly, Tinley concludes, communicating business transactions electronically makes good business sense as it helps to keep you competitive in today's marketplace.



*Dennis V. Vohs, president, MSA Advanced Manufacturing, Inc.*



\$1.5 million in inventory in six months while also clipping its shipping lead times and spare parts order life in half.

The benefits of using software from MSA Advanced Manufacturing was no less dramatic at MCC Powers, the Chicago, IL-based manufacturer of heating, ventilating, and air conditioning equipment. MCC Powers cut its assembly lead time from four weeks to three days using the AMAPS system. At the same time, on-time deliveries rose from 73 percent to 90 percent—while inventory dropped from \$8 million to \$6.4 million.

The examples of success in solving thorny and critical manufacturing problems are seemingly endless. CIBA Corning, manufacturer of sophisticated electronic test equipment for the health care industry, used the MSA manufacturing software to drastically reduce the development cycle of an important new product, permitting the company to introduce the product to the market three months ahead of schedule, gaining a critical jump on its competition. ADC Telecommunications, Inc., another electronics manufacturer, used the software to boost on-time shipment from 37 percent to 95 percent and annual inventory turns from 1.6 to 4. The list goes on.

### Strategies for Success

MSA Advanced Manufacturing has made a hallmark of solving tough problems for manufacturers faced with tough competition. The company's search for new solutions and new strategies for success for manufacturers is as seemingly endless as its list of clients' success in employing its software.

One of MSA's strategies for success includes its introduction of application-to-application electronic data interchange (EDI). This strategy fits tightly within its overall plan to support American manufacturers moving toward just-in-time production. With EDI, manufacturers are able to link electronically with both their suppliers and their distributors, allowing all parties in the chain to greatly reduce the effort and time involved in conducting business. Electronic data interchange makes it possible to exchange excess inventory for information. The cost savings is substantial.

Another strategy for success is MSA Advanced Manufacturing's Technology Options Program (TOPS). Because of the open system architecture of its systems, and because MSA supports a variety of hardware platforms, database manage-

ment systems, and operating systems, clients are assured of maintaining their freedom of choice in selecting MSA. In addition, MSA's TOPS program offers a formalized assurance plan by permitting clients to upgrade or change their information processing strategy without risk to their investment in software. If a manufacturer decides to take advantage of a new advance in hardware technology under MSA's TOPS program, for example, it can also change to the more appropriate manufacturing system in the AMAPS family of products. To remain competitive, MSA understands that manufacturers must retain their flexibility. TOPS provides them the key to remain on the leading edge of technology.

### Commitment to CIM

Yet another strategy for success is MSA Advanced Manufacturing's CIM Partners Program. In this age of increasing reliance on computer technology in all aspects of manufacturing, the CIM Partners Program is an important statement of intent as well as an understanding of the realities of CIM. At present, and very likely for a long time to come, a manufacturer cannot go out and buy a total computer-integrated factory from one supplier. The CIM Partners Program clearly concedes this point while at the same time addresses the truly critical issue within CIM—integration.

In essence, the CIM Partners Program is a formalized approach to building alliances with suppliers of allied technologies and services in the CIM arena. It is an added assurance to manufacturers that MSA will seek formal alliances with other vendors to provide the integration between the various sub-systems in CIM. MSA has already formalized agreements and engineered the integration linking its MRP II system with one of the leading computer-aided design (CAD) systems from IBM. It has also signed agreements and engineered the link with several shop floor data collection device vendors, ensuring the data accuracy reporting production status on the shop floor.

MSA Advanced Manufacturing has also enlisted a leading artificial intelligence/expert systems vendor to join in a partnership under its CIM Partners Program. Aion Corp., of Palo Alto, CA, is one of the most promising research and development firms in this exciting new field. And



MSA has already used Aion's expert system shell to build several applications for its own internal use as well as for its customers. It is part of Advanced Manufacturing's commitment to offer the most advanced manufacturing technology available.

"Manufacturing in this country is

poised to change more in the next ten to twenty years than it has in the last one hundred years," says Vohs. "We are in the midst of a technological revolution that will utterly transform the face of manufacturing here as well as abroad. As the world's largest independent supplier of applications software to manufac-

turers, MSA Advanced Manufacturing is integrally involved in helping to engineer this revolution," adds Vohs. "It is the future. And we are committed to it."

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## Controlling the Marketing Channel

by Andre Martin

Distribution Resource Planning (DRP) began in manufacturing with the intent of integrating distribution and manufacturing functions.

Organizations use DRP to schedule distribution needs more accurately and to achieve stability within manufacturing. As a result, distribution and manufacturing have enjoyed substantial benefits in the areas of improved customer service, lower inventories, reduced costs, and less obsolescence.

For the past several years, I've been working with organizations, particularly wholesalers and distributors, on a new approach to managing their inventories and purchasing products. By electronically communicating time-phased requirements to suppliers, these companies can completely change the way they do business and significantly reduce their costs.

The term I've applied to this new approach is "DRP-based electronic customer demand management." Instead of the traditional way of procuring goods, customers can electronically send present and future demands to their suppliers.

As a result, suppliers can reduce inventory because they no longer have to forecast what customers will buy. Without this preview of future demand, suppliers are left guessing what is needed to fill future needs, resulting in added costs and longer lead times.

With the additional information, production and distribution schedules can be tailored closer to the customers' needs. One company I'm working with will no longer have to forecast up to 80 percent of its customers' orders, which is a tremendous operational and financial advantage. It becomes a win-win situation because both parties gain.

The benefits of DRP-based electronic customer demand management include:

- total visibility of customer needs,
- reduced workload for the suppliers' sales force,
- elimination of purchase orders,
- simplification of order entry,
- significant reduction of demand uncertainty,
- improved customer service and reduced inventory for customer and supplier,
- possible consolidation or elimination of distribution centers through direct factory shipments,
- increased productivity and lower cost of manufacturing,
- lower transportation costs through geographical truckload consolidations, and
- significant competitive advantage.

The significant benefits offered by this new approach to DRP might lead some organizations to experience resistance to the systems from sales and marketing representatives. As management tells sales representatives they no longer have to call on customers to ask for an order because it is being electronically communicated, the representatives see themselves potentially losing their jobs. DRP is viewed as an invasion of their territory because of the time and effort they spend taking orders.

In reality, professional sales and marketing people should welcome DRP. Order taking is mundane work and time would much better be spent on other activities, such as creating new promotions and developing deals. DRP actually helps professional sales people do a better job of selling their products.

Such resistance to DRP should not stand in the way of the excellent growth



potential it offers companies. All that is required is to inform employees of what DRP can do for the entire company, instead of a certain area.

The next five to ten years will demonstrate what can and is being accomplished with this new approach to DRP. It will enable companies to become more competitive by reducing costs, lowering inventories, and improving service at the same time. The companies that get there first are going to find themselves with a tremendous competitive advantage.

**ABOUT THE AUTHOR:** Andre Martin is president of Andre Martin & Associates, a Montreal-based firm specializing in the application of DRP/MRP II systems. Also an Oliver Wight education associate, he conducts classes on DRP and MRP II Financial Management. Martin pioneered DRP in industry in 1975 as director of manufacturing operations and materials management at Abbott Canada.



# Hiring The Best

By Harry Bacas

*Before you interview anybody, consider what kind of job you are trying to fill. Then ask the right questions.*



ILLUSTRATION: RICK AGNELLO

**H**ow can you make sure the person you are thinking of hiring will be the best choice for your company?

Because getting the right people in the right jobs is so important to the success of any business, owners often want to interview potential employees themselves. Yet few can boast of never having made a hiring mistake. In fact, half of all new hires stay with a company no more than six months, and each mis-hire can cost 30 to 50 percent above annual salary in lost productivity and the expense of replacement.

"The problem is often little more than being unable to interview effectively," says Martin John Yate, author and former training director for the Dunhill Personnel System, in a new book, *Hiring the Best*, published by Bob Adams, Inc.

"It is a dirty secret... that managers are not usually taught this key managerial art."

Three main failures mark the untrained interviewer, says another expert, John Franco, president of Learning International, a training company in Stamford, Conn.:

- Not spending enough time analyzing the requirements of the job you are trying to fill.
- Failing to ask candidates the right questions to find evidence of their suitability, including both their strengths and their weaknesses.
- Trusting too much to your gut reaction instead of evaluating candidates objectively against the criteria you established for the job.

"The result," says Franco, "is an inability to make confident and correct decisions."

Some small-business owners have learned from past failure how to analyze their job needs.

Poppy Rossano, president of an office machinery and supplies firm in Williamsville, N.Y., for example, says she has learned over her 18 years in the

business that "our first criterion must be to build a team that can work together."

She interviews any applicant for a sales or customer-service job three separate times before hiring, and says, "I want to learn about a person's personality before I get to their skills."

Rossano prefers people without experience and often hires young people

## Don't Ask These Questions

When interviewing a job candidate be careful not to ask questions that don't relate clearly to the job. You might be creating grounds for a discrimination suit.

The Equal Employment Opportunity (EEO) laws, enacted between 1964 and 1978, aim to insure that certain classes of people have equal access to jobs and promotions. The classes covered: women, racial and religious minorities, adults aged 40 to 70 and the handicapped.

In addition, some state antidiscrimination laws go even further. A long series of court rulings has determined how these laws apply to particular cases.

To stay within all these EEO laws when interviewing, the basic rule is to ask only job-related questions. You should avoid questions related to arrest

records, garnishment records, marital status, child-care arrangements, nature or extent of physical disability, plans to have children, age, religious practices and family history.

As an example, Communispond, Inc. (New York), in its training seminars says that although you may need to know how expensive it will be to relocate a particular job applicant, you can't ask "Do you own your own home?" or "Are you married?" or "How many children do you have?"

But you may ask, "What circumstances, if any, would make relocation to our city difficult for you?" And if the applicant volunteers information about a spouse, children, mortgage, etc., you can then discuss it.

You could ask why a person picked his major in college. And you could ask if a person has a car, if car use is job related. But you shouldn't ask a woman what her husband does for a living or how many children she has.

Not following these guidelines can be a costly mistake.



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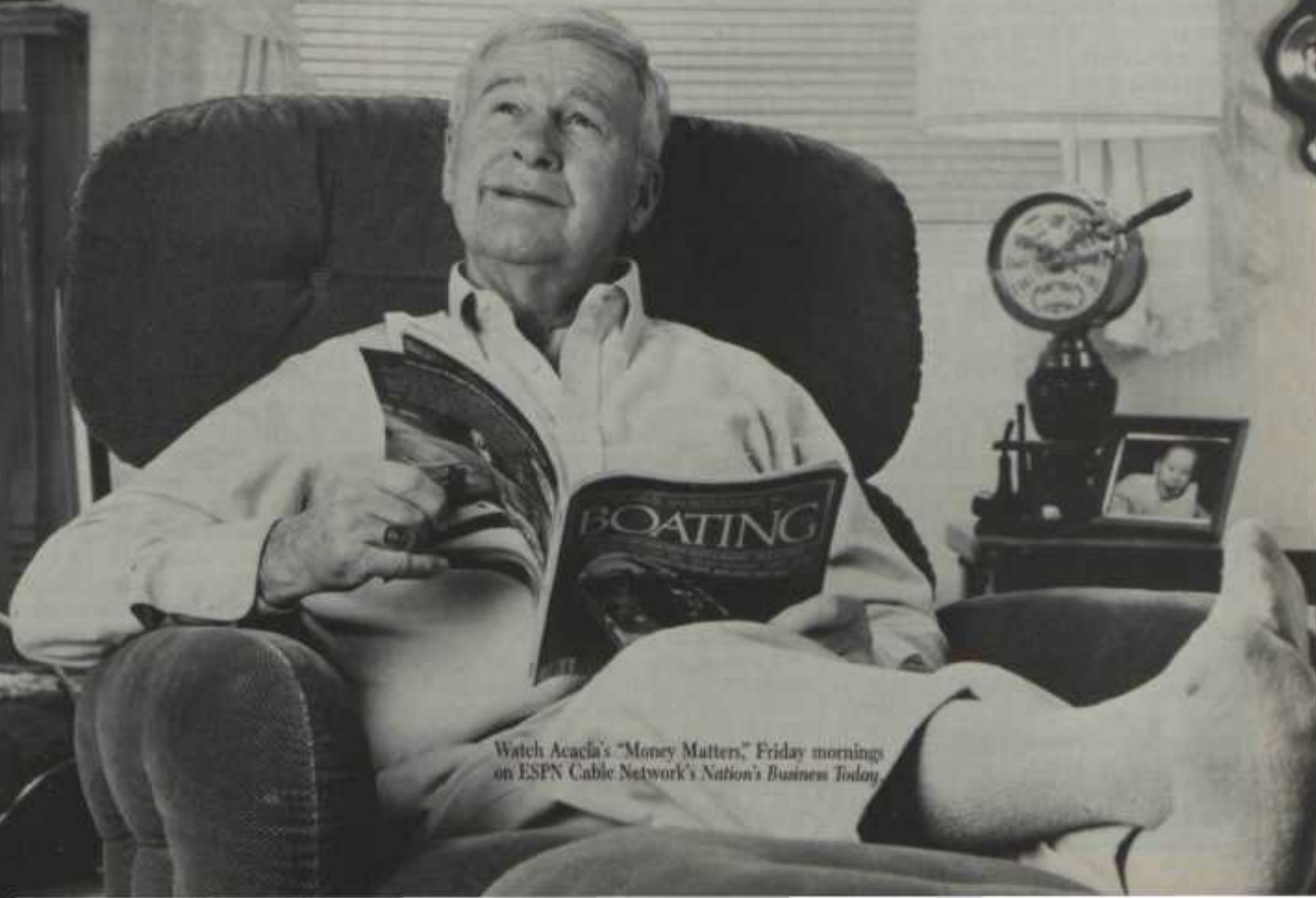
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## MANAGING YOUR BUSINESS

## Hiring The Best

*A thoughtful employer will use the pre-employment interview as a test-tube exercise to find the right person for the right job.*

just out of school. "We want people who can see things freshly, who aren't stuck in old ways," she says. "We'll give the training. Too often, experienced people have been trained wrong."

**P**rior job experience rates higher than youth with Filomena Mullis, who owns both a child-care pre-school and an adult-learning center in Macon, Ga. She needs employees with specific experience in teaching or child care, she says.

In interviewing, she also emphasizes stability. "I prefer a mature single woman—a lot of our employees are divorced—rather than a younger married woman who might have to leave town if her husband is transferred."

Training expert John Franco says there is no magic in teaching people interviewing skills. In his company's seminars, he says, "we take little kernels of what successful people do well and try to communicate them to others."

His company is not the only one that teaches interviewing. Others include Development Dimensions International, of Pittsburgh; Communispond, Inc., of New York; and Dun & Bradstreet Business Education Services, which offers seminars in conjunction with *Nation's Business*.

Franco's company, formerly known as Xerox Learning Systems, calls its seminars "Focused Interviewing." They are all-day affairs that use group discussion, written exercises and role-playing.



First, managers are shown how to gather more information about an applicant with open-ended questions ("Describe how you increased production by 10 percent") than with questions that can be answered in one word ("Do you use a software program for that?")

Then the participants get out sample resumés they have prepared, and they take turns interviewing one another to

explore the information in the resumés.

Finally, the participants practice evaluating the evidence they have collected in the interviews, especially how to review the evidence with others who will be involved in the hiring process.

For the small-business owner who is not satisfied with the way his company is filling jobs, Franco offers this capsule program:

- Look first at your recruiting, then at your interviewing. Try to use your own organization to recruit, rather than an outside agency. The people you recruit yourselves are likelier to stay.

- When you choose among candidates, prefer people who have sought you out for employment. If they have come to you, there is a greater probability they will stay. They will feel more responsibility to live up to expectations.

- When you interview, be sure to listen more than you talk. The untrained interviewer talks too much. Be receptive, but use silence to encourage further response.

- Make your hiring decision a reasonable one, based on the criteria for the job.

- For the person you are hiring, develop expectations that are in line with the job description.

- After hiring, stay in touch with the person for the first four or five months, to be sure of how they are doing.

Elizabeth Gould, vice president of National Graphics, Inc., St. Louis, has seen her photographic-products-manufacturing company grow from 16 employees to 90 in the 11 years she has

## Polishing Your Interview Skills

The small-business owner who wants to fill a job with the best-qualified person should avoid some "common interview pitfalls," says Ed Kiradjieff, former director of personnel for Price Waterhouse and now head of his own Boston-based recruitment firm.

A poor interview not only may result in hiring an unsuitable candidate but may drive a better prospect away, says Kiradjieff, who has interviewed thousands of job hunters during his 25 years of employment experience. He offers 10 ways managers can improve their interviewing ability.

*Prepare a written job description.*

List job duties, professional qualifications and the kind of work experience needed.

*Break the ice.* Establish a friendly atmosphere with small talk and questions about personal interests.

*Develop an interview time plan.* Try to avoid phone calls and other interruptions. Tell the candidate, for example, "We have 45 minutes. I'd like to spend the first 15 minutes discussing the job, the next 15 minutes on your background and the remaining time on any questions you may have."

*Keep an open mind.* Guard against forming hiring decisions too early.

*Give the candidate time to tell his or her story.* One of the biggest errors of the untrained interviewer is to talk too much.

*Present a truthful picture of the*

*company and the job.* Give both the positives and the negatives.

*Listen carefully.* Pay attention to repetitions, consistency and convictions. Is the candidate passionate about outside interests? Concentrate, and take notes.

*Avoid salary hide 'n' seek.* Don't ask "What will it take to get you on board?" This is threatening. Better to inquire about salary history and compare it with the job's salary range.

*Tell the candidate about the next step.* Don't leave the candidate hanging. Stick to the plan, and communicate as promised.

*Mind your manners.* "Extend the kind of courtesy you would give your best customer," says Kiradjieff. "Above all, don't just act interested. Be interested."



been there. Her father started the business in 1974.

"We don't have to look far to find applicants," she says. "Our own people generally bring in people they know, although to fill a technical position, like a chemist, we may advertise."

"Because of the type of management we have," she says, "we look for a person who is self-motivated, who likes to work. We also look to see if the person fits the philosophy and the outlook of the company."

"We are a small business, and a lot of our success is due to the kinds of people who work here. They are friendly and outgoing, and they have to be. After all, Eastman Kodak is our main competitor."

Gould admits she has made a couple of hiring mistakes. One was a man, one a woman, and in both cases performance started to slip after the 30-day probationary period was over. Each was shifted to a different assignment, but they fared no better and eventually had to be fired.

Without having hard evidence, Gould is pretty sure that drug or alcohol abuse was a factor in both cases. Now the company gives new hires medical tests, and it has established an employee-assistance program to provide counseling and therapy.

Gould says one defense against such mistakes is to "start asking your business associates about any potential employee. The more you know about a person, the better employee you are likely to get."

When she interviews a prospect, she says she looks for "the fit between what the potential employees want to do and what the company needs. I want to know what their goals are and what they want to excel in."

A different set of requirements is described by Robert B. Friedman, president of Hodgson Houses, Inc., of New York. From a plant in New Hampshire, the company supplies high-quality modular houses to builders throughout New England.

Friedman says that in choosing a factory department head, for example, he needs a person with specific skills in home manufacturing. For a financial officer, he looks for "experience with cost controls and budgets." For a sales executive he tries to find a person with "experience in home selling, someone with good marketing instincts who has some entrepreneurial feel."

After interviewing a prospect, Friedman likes to make a practical test: "We send him to the operation and ask him how he would solve a problem."

For example, in another of Friedman's businesses (he owns and operates Embassy Suites hotels in several cities) "we bring the candidate in over a weekend and ask him to review the front desk. We ask him what he would do to improve it."

Most managers would like to make interviewing "more of a science and less of an art," says Jo Wein, director of interviewing programs for Communispond.

Wein says her company's seminars try to put more science into interviewing by giving managers skills that will make them more objective.

She says good interviewers learn to talk no more than 20 percent of the time and listen 80 percent.


Interviewers should not structure the interview around the applicant's resume but should prepare their own

"road map" based on the job, Wein advises. "First, we teach them to establish criteria for the job. And, second, we teach them to hook their questions to those criteria."

"We tell them: Your questions should aim to find out whether this person can do the job; whether he will do the job the way you want it done; and whether he will fit into your organization, your team, your department."

Here is her checklist for interviewers:

- Be prepared;
- Be friendly and interested;
- Gather information before disclosing too much;
- Ask open-ended questions;
- Probe for evidence;
- Uncover patterns;
- Take notes;
- Create a conversation, not an interrogation;
- Sell your company. ■

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# Innovators

By Sharon Nelton

## Being First And Proud Of It

More than a year ago, First Financial Savings Association, based in Stevens Point, Wis., ran an employee contest called "Stake Your Claim To Be First." The competition was such a knockout that it has been of lasting benefit to the 63-branch statewide S&L.

The contest challenged employees to stake their claim to be the first First Financial employee in one or all of four categories:

- At work.
- In their personal lives.
- In community service.
- In the future.

"We didn't want to make it only 'What have you done on the job?'" says John Koutre, who, as First Financial's vice president of marketing and public relations, was intimately involved with the program.

"The idea was to give individuals a chance to show some personal pride in what they had achieved both on the job and off the job."

Stake Your Claim began as an effort to help create a team out of employees and improve morale at three disparate S&Ls that, through merger and acquisition, had come under First Financial's wing.

First Financial was bringing together rural and urban branches. And one of the acquired banks had been in a slump. Its employees "needed to feel good about themselves again," says Koutre, who recently opened his own business, a marketing and communications firm in Stevens Point.

Koutre says First Financial also wanted to avoid letting its own employees assume a sense of superiority toward the employees of the acquired company. "We wanted to let our existing employee base have the feeling that these were some talented people coming on board."

Grand prizes in each category offered winners the trip of their choice—to Lake Tahoe, Walt Disney World or Mount Rushmore. About half of the company's 1,200 employees entered.

As entries were published, first in a

*How well do you know your employees? Like First Financial in Wisconsin, would you find one who is a volunteer firefighter in her off hours?*



ILLUSTRATION: CAMERON GERLACH

company newsletter and finally in a slick document called "First Financial's Book of Firsts," employees got to know some surprising things about one another.

For example, not only did Marti Fligel of Minocqua get "Joe Montana out of bed at 1 a.m. the night before the Cotton Bowl in 1978" (no further explanation given), she is a firefighter who helped save a burning building in minus-25-degree weather. In the future category, Debbie Ulbing of Milwaukee envisioned a special children's savings program that she would call "Save for a Wish."

Among the on-the-job firsts was Jacqui Graham of Stevens Point, who came to work on Halloween dressed as an elf.

A combination effort of First Financial's marketing department and Jones, Brown & Martin, a Waukesha public relations firm, Stake Your Claim swept aside the feeling of "them and us" and helped employees readily find out what they had in common. In terms of building a team, says Koutre, it was like having a family reunion, a big company picnic and three years' worth of news-

*A contest that improved morale during a merger by calling attention to employees' achievements, on and off the job.*

letters all at once. "We got up to speed quick."

"'Stake Your Claim To Be First' gave us a firsthand knowledge of what our people were actually doing in the community and with their personal lives," adds First Financial President John C. Seramur. "I gained more understanding of many of my co-workers and new respect for them."

The grand-prize winners?

They were Constance Loetterle of Stevens Point, who at age 7 was "kissed by Vice President Hubert Humphrey in the United States presidential office"; Margaret Buelow of Wauwatosa, who had donated 62 units of blood and served on blood drives for 22 years; Bob Schlidt, vice president and regional sales manager at the Wauwatosa Branch, for his career achievements; and, in the future category, Jill Haupt of Waukesha, who wanted not only to find a cure for cancer but also to invent a time machine that would "take me back to save those people who died too soon."

But the real winner, said a company newsletter, was First Financial. ■



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more, using the system is significantly less expensive than other options because costs are based on actual usage.

When you think about it, there are really only two kinds of communications companies.

The ones that can talk high-tech. And the one that can listen to your problem and provide a high-tech solution.

New Jersey Bell is the listening kind. Give us a call at 1-800-843-2255, extension 62.

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# Is It Time For An Ad Agency?

*Even very small firms can use an agency, but they have to choose with care to find the right match.*

By Sandy McGlashan and John Clausen

**F**or the small-business owner, advertising is like weight lifting: If you don't do enough, you're wasting your time. And if you lose control, you can get seriously hurt.

Karen Zarn, the owner of La Cabine, a clothing store for executive women on East 57th Street in New York City, learned the control lesson the hard way—after she hired a Manhattan ad firm to promote her store's image and merchandise.

She let the agency talk her into accepting some print and radio ads that weren't what she wanted. At the time, she rationalized that she was "paying these people for their expertise."

The print ads, in *The New York Times*, she says "looked like something for a high-fashion department store." The radio spots, meanwhile, "ran out in the Hamptons . . . after Labor Day."

Her own instincts and business sense, had she listened, would have told her that she needed to cultivate a different image than that of a Bloomingdale's, that a beach resort is not a place to run ads after Labor Day and that the campaign lacked focus.

In retrospect, she says, she "wasted \$25,000."

"You know your customers better than anyone," she says. "Don't let them [the agency] say anything that doesn't reflect what you feel."

You'll first want to give some thought to whether your small business needs advertising, let alone an agency.

Perhaps you have a semi-captive clientele and would be best served by an extremely modest advertising outlay. One example: You operate the only full-service laundry near a large housing development.

Fair prices, courteous service and good work advertised through posters, handbills and an occasional mailing probably would do the trick.

Find out whether the media in your area would recognize your in-house advertising department as an agency. If so, you'd receive the 15 percent commission usually paid to an independent agency. You may be able to save enough to pay for a staff advertising



PHOTO: MAGGIE STERN

specialist because of this discount.

Karen Zarn now prefers to pay an agency to place the ads but handles the creative end herself. She creates the concepts, hires her own graphics designers and writes her own ad copy.

For some owners, this would be a good way to split up the work.

The media market is sophisticated and fluid. Keeping track of changes in ratings, personnel and price is a full-

*After she "wasted \$25,000" on ads ill-suited to her Manhattan clothing store, Karen Zarn retains creative control of her ad campaigns.*

time job. And because selling ads is highly competitive, the small-business owner is likely to be deluged with sales pitches from local media representatives offering explanations of why his

*Sandy McGlashan and John Clausen are co-owners of Wordwrights Advertising in Sacramento, Calif.*





# Nation's Business

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## MANAGING YOUR BUSINESS

## Is It Time For An Ad Agency?

or her audience and "numbers" are just right for that business' needs.

A Lawrence, Kans., restaurant owner found his own low-cost alternative—a non-advertising campaign.

The owner, Bill McClain, never ran ads. He didn't even put a sign in front of his restaurant, The Red Lion. He just posted a notice near the exit pleading with customers to refrain from telling anyone else about the place.

Naturally, they told everybody they knew. People lined up, sometimes in freezing weather, to eat at the place without the sign.

If you decide, however, that conventional advertising would help, and that you don't want the job, then you should begin interviewing local agencies.

Picking a good agency is a talent in itself.

Look for one that seems capable of understanding your aspirations and concerns. At the same time, try to get a sense of the agency's approach.

Large corporations likely will feel most comfortable with similarly structured ad agencies. An entrepreneurial

company will almost always do better with a small agency.

Listen carefully to what the account representative talks about. Make sure the conversation centers on your product or service and the message you want to impart, instead of the amount you are prepared to spend. This doesn't mean you should keep the budget a secret from the agency. Its staff needs to know what they have to work with.

**A**sk about the agency's media capabilities. You are paying the agency to be familiar with the media—newspapers, radio, television, direct mail. The firm's buyers should be adept. What do media people say about the firm?

As for your ad budget, 3 to 5 percent of gross sales is the rule of thumb for maintaining an existing business. If yearly sales at your company are \$1 million, that would give you a \$30,000 ad budget. For a start-up or a heavy promotion, the budget might reach 15 percent of gross sales.

Be aware that \$30,000 is not as large

an ad budget as it may sound. Many forms of advertising entail expensive production fees long before the public sees or hears the message. Figure on spending \$5,000 for a locally produced TV spot, for example. Print ads may require the services of a typesetter and a graphic artist. A simple black-and-white newspaper ad can cost hundreds of dollars to produce, in addition to the cost of buying space.

Talk with the creative people as well as with the executive who will be handling your account. Make sure they understand what your priorities are. Ask how long they have worked for the agency and whether they are responsible for the portfolio examples that caught your eye.

High turnover is a fact of life in the ad business. But by asking, you are putting the agency on notice that you are not to be had. Get an account list from the agency, pick a couple of accounts at random, and talk to clients about the performance of the agency.

**L**earn what sort of ad work the agency admires the most. If you hated the Levi's 501 bluejeans TV commercials and your agency's creative team thinks they're great, you probably should look for another firm.

Beware of agencies that seem excessively proud of their industry awards. There is an unfortunate tendency among some advertising people to put clever, award-winning work that sells their agency above the more practical advertising that sells your product or service.

And watch out for the advertising account executive whose pitch to you centers on the agency's impressive equipment or offices. There's nothing wrong with up-to-date equipment, but remember that you're buying human talent and expertise.

To evaluate your agency's performance, look at your original goals. Were they accomplished? Did traffic increase? Did sales increase?

But you can't just look at bottom-line figures. Don't blame your ad agency for an internal sales problem or for circumstances beyond its control. Were your goals realistic in light of market changes?

But perhaps the most important test is simply this: Did your business life become easier and more profitable as a result of hiring your agency? **■**

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 To order reprints of this article, see page 75.



# Making It

*Bright business ideas can flourish almost anywhere, from North Dakota to Texas to South Carolina.*

## Plains Seeking

Think of high-tech meccas, and California's Silicon Valley and Boston's Route 128 will most likely spring to mind. But Fargo, N.D.?

Well, Silicon Prairie it is not, but—thanks to the vision and leadership of one native son—the city of Fargo, population 145,000, is now home to one of the top three accounting-software suppliers to Apple Macintosh computers: Great Plains Software, Inc.

When Douglas Burgum, 31, bought out the founders of the 6-year-old company in 1984, however, success was hardly in the cards. Although sales were chugging along, morale of Great Plains' 15 employees, operating out of a converted barn on Fargo's outskirts, had hit rock bottom.

For years, Fargo's best and brightest had fled across the state border to Minneapolis-St. Paul, to join the ranks of larger, well-heeled companies. So, Burgum turned on his power to persuade. Coupling appeals to hometown pride with the chance to help build a local business into a nationwide competitor, he wooed back talented North Dakota defectors and, within a year, doubled Great Plains' sales.

"Our technology is very good, if not superior to the competition's," says Burgum. But the company's good fortunes, he believes, have more to do with values and goals shared by all employees. Among those shared goals, which the upbeat Burgum reviews at monthly meetings to fire up the staff, customer service is the most important.

Employees use every contact with customers to solicit feedback, a process Burgum likens to "looking in a mirror so you can see yourself as others do." The information is plugged into a computerized database that currently holds more than 500 suggestions for enhancing products and service.

One such suggestion was adopted last year. Like many software vendors, Great Plains charges customers for telephone consultations. But complaints were pouring in: Customers didn't like being charged when the waiting time

*Douglas Burgum, president of Great Plains Software, proved the pessimists wrong. They said a high-tech company couldn't flourish on the prairie of Fargo, N.D. Today his firm*

*is one of the leading suppliers of accounting software for Apple Macintosh computers.*

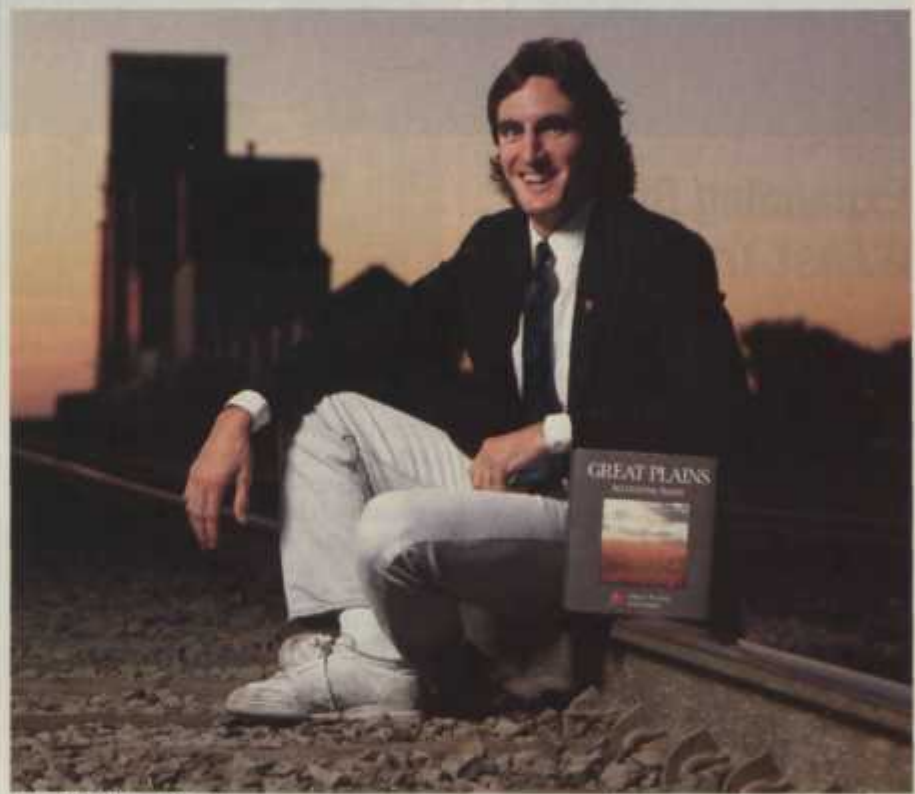


PHOTO: CHUCK KNEYSER—BLACK STAR

for an answer could be a couple of hours.

So Great Plains instituted its "express service" program. If a call is not handled within a half hour, the customer gets one free service call or a \$50 discount toward any future purchase.

Management Burgum-style draws heavily on the landmark study *In Search of Excellence*—written by Thomas S. Peters and Robert H. Waterman, Jr., two partners at McKinsey & Company, where Burgum worked in the early 1980s after he graduated from Stanford University Business School.

Although he loved the work at McKinsey, Burgum had never quite gotten Fargo out of his system. Moreover, his entrepreneurial nature was getting the better of him.

"I was getting the urge to lead and decide, and at McKinsey, all you could do was persuade, recommend and

wait," he explains. Thus, when the founders of Great Plains (also Fargo locals and familiar with Burgum's business background) tracked Burgum down and invited him to become the fourth shareholder and vice president of marketing, he needed little prodding to dig into his family inheritance and accept the offer.

A year later he was in charge: The previous owners moved West to pursue other careers, and Burgum, again drawing on his own resources, bought out the company.

With employment at 164 people, the privately held firm is on a roll: Sales continue to spiral up. Shipments during 1987 are beating last year's record by 60 percent.

Says Burgum: "I always knew I would return to Fargo and give something back to the community."

—Karen Berney



## Making It

## PEOPLE

*Texan Kenny Bernstein parlayed his love of racing and his innate sense of timing into four racing-related businesses. One of them, King*

*Entertainment, Inc.—which started with Anheuser-Busch backing the Budweiser King—lines up corporate sponsors for racing teams.*



PHOTO: STEVE EARLEY

## Expanding On A Fast Track

When race driver Kenny Bernstein couldn't find a sandwich in a Lubbock, Tex., mall, he started the Chelsea Street Pub there.

That business grossed \$1 million its first year, and seven years later, Bernstein sold a chain that had grown to 17 restaurants.

To Bernstein, starting the restaurant was "just common sense. That mall was packed with people," but there was no place to get a beer and sandwich.

Bernstein has now combined that common sense and an uncommon ability to seize an opportunity with a love of racing to create a growing empire of companies in the auto-racing industry.

His passion for racing was so strong that he quit college in 1966 to work for a drag-racing team. He then became a driver himself, but had to sell clothes in a department store to earn enough money to keep at it.

When the money ran low in 1970, Bernstein quit driving to start a towing business—with one truck. Two years later, he sold the business and returned to racing.

He lasted for a year that time, and then came the Chelsea Street Pub. As business boomed, Bernstein used the profits to organize a race team.

"Now that I had the money to do the racing first class, I couldn't resist," he says. "I was just going to run six or seven races that year [1979], just to get away."

A few races turned into an entire season of more than 20 races.

Bernstein decided that if he could find a corporate sponsor, he would race

full time. If not, he would put away his dream forever.

A business contact arranged for him to show his car to Anheuser-Busch, Inc., in early 1979, when, Bernstein says, there were no brewery sponsors in drag racing. He was convinced—his "common sense" again—that a brewer would find a logical market in racing, since the average fan is young and male, with cash to spend.

Anheuser-Busch bought the Bernstein offer. His car was renamed "Budweiser King" and painted with advertisements. His 18-wheel support trailer became a rolling billboard.

"The deal was a gamble by both of us," Bernstein says. "Anheuser-Busch didn't know much about racing. They gambled that I was a good man to go with. I gambled that I could show them they had made the right decision."

Bernstein founded King Entertainment, Inc., in Dallas, in 1980. The primary function of the business was to bring in more sponsors. Today, 17 sponsors pay the firm to advertise their companies on Bernstein's car. It costs more than \$1 million a year to run for the Winston championship, the drag racer's coveted prize.

Bernstein uses strong communications skills to sign new clients and keep old ones. In 1985, for example, he was able to document that 4 million people were exposed to "Budweiser King" or Kenny Bernstein.

Bernstein also gives credit to employees and associates. "You can't do everything yourself," he notes. "The key is to surround yourself with good people. The service makes or breaks you."

In 1985, Bernstein launched three more businesses: King Sports, King Racing Components, Inc., and a stock-car racing team. King Racing Components markets a computer developed by

Bernstein's organization to monitor race cars' performances.

"We decided to sell the computer because our competitors will eventually get into computer technology," Bernstein says. "We can't keep it from them for long, so we might as well sell it to them and make the profit."

King Sports, Inc., handles promotions, marketing, public relations and merchandising for companies involved in motor sports. King Sports has contracts with several major companies, including the Goodyear Tire & Rubber Company, Quaker State Oil Refining Corporation and Buick Motor Division.

As for the future, Bernstein says: "No more expansion for now. There's work enough with what we already have. The groundwork is laid; now it's time to dig in and attack."

—Shelley Gatty

## Tailored Tunes

Finally, a potential cure for elevator-music blues. The Ecker Group, a Playa del Rey, Calif., marketing firm, specializes in a service called Corporate Harmony, where tunesmiths create original jingles for corporate communications programs.

Ecker can turn key messages about your company or clients into, say, a serenade for telephone callers on hold. The song can be leased for \$6,000 a year or purchased for \$18,000. Companies such as General Foods have used the messages to inspire employees during in-house training sessions, to roast retirees or just plain boost sagging morale.



# Direct Line

*Answers to questions about franchising mail boxes and fast food, selling a new product and finding wholesalers.*

## Mail-Box Rental

I'm interested in starting the business of mail-box rental. Whom do I contact?  
*D.S., Brooklyn, N.Y.*

If your experience is limited, you might try a franchise. Try Mail Boxes Etc. USA, 5555 Oberlin Dr., San Diego, Calif. 92121; (619) 452-1553. They recently opened their 500th mail-box franchise. They will send you a franchise packet that explains the entire procedure, starting with what a franchise is.

## Now Hear This

Last year I thought up a new product. Can you suggest how I should go to tell someone about my idea?  
*C.Z., Muskegon, Mich.*

You might look at the *National Trade and Professional Associations of the United States* directory. Found in most public libraries, it lists the addresses, phone numbers and basic information about more than 6,000 active associations and labor unions. Contact the associations whose members may be interested in your particular product. Their membership lists may lead you to a contract.

You also might consider taking your product to trade shows. Ask association headquarters for their calendars of conventions, conferences and trade shows.

## Fast-Food Connection

Do you have any information on franchising, especially in the fast-food restaurant business?  
*D.B., Mission, Tex.*

Begin with the International Franchising Association, Suite 900, 1350 New York Ave. N.W., Washington, D.C. 20005; (202) 628-8000. They will send you information on how to get started. The National Restaurant Association, 311 First St., N.W., Washington, D.C. 20001; (202) 638-6100, also can help.

Pick up a copy of the *Franchise Opportunities Handbook* from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

## Kiddie Connections

I am interested in starting a small business selling children's merchandise.



ILLUSTRATION: WILLIAM COULTER

How can I get addresses of wholesalers or distributors of name-brand merchandise?

*L.K., Del Mar, Calif.*

Dun's Marketing Services, with offices in major cities, can head you in the right direction. The office nearest you is at 1440 N. Harbor Blvd., Suite 127, Fullerton, Calif. 92635; (714) 738-0123. Ask to speak with an account executive. A few exploratory questions over the phone are free, but beyond that, Dun's charges for its information.

## Self Promotion

I am the director of marketing for a large fast-food corporation. I would like to have my own promotions company but don't know where to start. I plan to begin at home, using contacts I've made over 10 years. I don't have financial backing, but I do have great ideas. Do I have a chance?

*T.W., Fort Myers, Fla.*

Starting a promotions firm takes hard work, determination and the flair to communicate well with others. Using the contacts that you have established is the best way to start.

Richard Spring, of Spring & Byrnes, Public Relations and Marketing Services, in Washington, says: "Experience in recognizing a client's needs, information on businesses, being able to utilize that information correctly and accumulating resources (such as supplies, photographers and writers) are essential to a successful firm."

Visit local promotions agencies, and

ask their advice. Investigate what kind of competition you'll be up against in your own town. Talk to free-lance writers, artists and photographers who might want to work with you.

Nancy Trent of Trent & Company, New York, has been in the business for 10 years. Her advice: "If you're going to start a business, you should do it with everything you've got. Use all of your energy, minimize your distractions, and be totally focused." She emphasizes stability and good management and lots of planning before getting started. And, she says, it is critical not to go into an enterprise undercapitalized.

## Growing Incubators

My company is interested in encouraging the establishment of business incubators in the East Texas area. Where do I start?

*P.H., Kilgore, Tex.*

Contact Carlos Morales, executive director, National Business Incubation Association, 153 South Hanover Street, Carlisle, Pa. 17013; (717) 249-4508. NBIA represents incubator developers and operators and publishes educational material, such as how to start an incubator and how to participate in one, as well as directories of incubators.

A business incubator offers fledgling companies a common location, on-site management assistance and shared support services, such as secretarial and maintenance help.

Many universities are also active in promoting incubators in the community. Not only do incubators bring new business into the area, they also benefit existing companies by enlisting their support services for the start-up enterprises. ■

## How To Ask

Have a business-related question?

Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.



# Editorial

*"Business must stand united in opposition to the current slippery, back-door effort to raise taxes. If we wait until later to fight, it may be too late."*

## There Are 100 Ways To Raise Your Taxes— And Congress Is Looking At All Of Them

In their zeal to demonstrate a commitment to fiscal discipline, the Democratic majorities of Congress have passed a budget resolution calling for more than \$64 billion in higher taxes over the next three years.

That sum is needed, they explain, to meet the worthy goal of reducing the anticipated \$171 billion deficit resulting from the spending level of \$1 trillion set in the same resolution. (That type of logic plays well in certain quarters on Capitol Hill.)

The call for the higher taxes did not specify, however, just what taxes were to be imposed or increased to provide the \$64 billion. That job was left to the congressional tax-writing committees.

As a result, the House Ways and Means Committee is looking at a list of more than 100 tax-increase options that cover virtually every type of business.

This hit list poses a major threat to small business and to the health of the economy generally. A few examples support that point: The options include increases in individual and corporate income taxes, the imposition of a value-added tax and boosts of 9 cents per gallon in the federal gasoline tax and 5 to 10 cents on diesel fuel.

Other specific proposals would add further to the tax burden of companies in services, retailing, manufacturing, banking, communications, construction, energy, insurance, mining, real estate, transportation, utilities and wholesaling. Smaller businesses would be especially hard hit by proposals to tax capital gains at death and to raise the estate tax, steps that would force the sale of many firms to enable heirs to pay estate taxes.

This blueprint for economic havoc is particularly threatening because too many members of Congress fail to recognize that the rationale for its existence is a myth. That myth is the view that the 1981 tax cuts that formed the keystone of President Reagan's economic program are the chief cause of the federal deficit. Tax reductions caused the deficit, and tax increases



ILLUSTRATION: WILLIAM COULTER

will eliminate it, that argument goes.

Those who blame the deficits on excessive tax relief ignore reality: The 1981 tax cuts have been offset almost entirely by subsequent increases in Social Security, gasoline and other taxes, by a partial rollback in the 1981 relief and by inflation-induced bracket creep.

Federal revenues have increased \$253 billion, or 49 percent, since 1980. The tax burden today is essentially the same 20 percent of gross national product it was in 1980. The cause of the deficits obviously is not overly generous tax relief.

Turn, then, to the other side of the ledger. Federal spending has increased \$399 billion thus far in this decade. Outlays have gone up 57 percent faster than the massive increase in revenues.

You don't have to be an expert in fiscal policy to conclude from those numbers that higher taxes don't cut deficits, they just fuel higher spending that eventually leads to even greater deficits.

The business community therefore faces a double challenge as Congress approaches final decisions on imple-

menting the 1988 budget resolution:

- 1) Head off the destructive tax increases now under consideration;
- 2) Shift the emphasis of deficit reduction from raising taxes to cutting spending.

As a concerned business person, you can join forces with your colleagues in your trade, professional and other organizations to achieve those goals. The critical need for business unity in this fight is explained in this message from Oliver H. Delchamps, Jr., chairman of the U.S. Chamber of Commerce, which has undertaken a major leadership role in the campaign against tax increases and for spending restraint:

"Business must stand united in opposition to the current slippery, back-door effort to raise taxes. If we wait until later to fight, when tax hikes are larger and a more visible threat to economic growth, it may be too late.

"Now is the time to inoculate our society against this virus, to state clearly to our elected representatives that they simply must bring their spending addiction under control. There is no other solution to the deficit problem." **NO**



# Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

ISSUE	BUSINESS IMPACT	BUSINESS MESSAGE
<b>Plant Closings/Trade Bill</b>	Businesses could be required to give 60-day advance notice of plant closings or layoffs of 50 or more employees if the omnibus trade bill retains provisions added by the Senate.	Members of the House and Senate: Support deletion of plant-closings provisions in the omnibus trade bill so that Congress can produce a bill that the President might sign.
<b>Comparable Worth</b>	Bills before Congress would require a comparable-worth study of the federal work force, which may be the first step in subjecting businesses to a pay system based on an arbitrary evaluation of the worth of a job. Outside evaluators would determine the "intrinsic" value of different jobs and set wages.	Members of the House and Senate: Oppose efforts to impose a "comparable-worth" pay system on workers and employers. Inconsistent and arbitrary judgments of outside evaluators must not be substituted for the marketplace or allowed to counteract advances in merit pay and promotion systems.
<b>Arctic National Wildlife Refuge</b>	The Coastal Plain of the Arctic National Wildlife Refuge (ANWR) in north-eastern Alaska may contain more oil and gas than any other onshore U.S. area, but it is closed to exploration and development until Congress gives its authorization. Meanwhile, imports of oil and natural gas rose 37 percent last year, increasing U.S. vulnerability to unreliable foreign sources.	Members of the House and Senate: Support legislation to open the ANWR Coastal Plain for environmentally safe oil and gas exploration and development to ensure adequate domestic fuel supplies. Oppose any measures that would permanently close the region to development and exploration. America should not rely on foreign suppliers for such vital resources.
<b>Product Liability</b>	America's product-liability system, the most expensive in the world, impedes American businesses in competing at home and abroad. Higher legal and insurance costs increase the price of U.S. products and provide foreign manufacturers with a strong price advantage.	Members of the House and Senate: A federal product-liability law is a priority of the business community. Excessive legal costs and awards impede American businesses in competing in international markets. Support equitable reforms, such as those in the Uniform Product Safety Act of 1987.
<b>Polygraphs</b>	Employers would lose a valuable tool if federal legislation is passed prohibiting the use of polygraphs by businesses. Polygraphs assist in screening job applicants, deterring workplace crime and controlling costs. State-level regulation can assure that polygraphs are used responsibly.	Members of the House and Senate: Oppose legislation banning the use of polygraphs. Businesses need this essential tool in selecting employees and controlling costs. States can ensure the responsible use of polygraphs by licensing examiners and issuing guidelines for administering examinations.
<b>Line-Item Veto</b>	If the President had the authority to veto spending proposals individually, he would have more opportunities for reduction of inefficient government programs. Currently the President is empowered to veto only an entire appropriations bill, which can contain funding for hundreds of programs.	Members of the House and Senate: Support presidential line-item veto authority. The line-item veto would promote fiscal discipline and reduce wasteful government spending. This procedural change would contribute to balancing the federal budget and would be a major step in budget reform.



## NATION'S BUSINESS CLASSIFIED

## Classified Ads

Classified Rates  
And Information

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# The Battle Over A Plant-Closing Bill

By Martha I. Finney

**H**igh on organized labor's ambitious agenda in Congress this year is a proposal to require companies to give public notice, well in advance of the fact, of plans to curtail or close operations. Stiff fines and other costs would be imposed for non-compliance. Labor leaders argue that the early notice would give workers time to line up new jobs. Business takes a different view.

Frank Mason, founder and president of the 200-employee Mason Corporation of Birmingham, Ala., says his company has not laid off a single worker in its 40 years of operation, but he's still worried about the impact of what is known in legislative shorthand as the plant-closing bill.

Mason, whose firm makes aluminum and steel parts used in renovating houses, calls the proposal "another encroachment by the federal government on the management of privately owned companies."

The amendment, as currently written, would apply to employers of 100 or more workers who are planning to lay off 50 or more. They would have to give at least 60 days' written notice to employees, the state dislocated-worker unit (which would be established under a provision of the amendment) and a representative of the local government. Penalties for violations would include payment of back pay to each affected employee for each day of the violation, payment of any fringe benefits lost (plus reimbursement for any medical costs that would have been covered by company insurance), civil penalties of \$500 a day for each violation and attorneys' fees.

"With advance notice, workers can begin to look for new jobs, to make arrangements for their families, to deal with the psychological stress—before they are actually out of work," says Thomas R. Donahue, secretary-treasurer of the AFL-CIO, principal backer of the plant-closing legislation. "With advance notice, the appropriate government agencies can start their assistance efforts before a closing or layoff."

Mason counters that the proposed requirements would not only infringe on management responsibilities, they would also work against the interest of

Frank Mason (second from right), shown here with three of the 200 employees of his Mason Corporation in Birmingham, Ala., says plant-

*Congress may require business owners to notify employees in advance of closing operations—but at what cost?*

closing legislation "could actually kill a company and cause everyone in the firm to be out of work."



PHOTO: MIKE CLEMMER

the employees that the bill would supposedly protect. As far as saving jobs goes, he adds, "What the government is proposing to do... could actually kill a company and cause everyone in the firm to be out of work."

He says that the advance public notice required by the bill could jeopardize strategies to save the plant and undermine negotiations to sell the operation, attract new investments, refinance debts or merge with other companies. It could also jeopardize prospects for new business the plant might be seeking, Mason points out.

"People who have invested their savings in a company need to have the prerogative to manage their business as they see fit," he says. "If the business fails, nobody has a job."

When Democrats regained control of the Senate this year, supporters of plant-closing legislation in that body were able to add it to a broad bill on trade policy. That strategy is based on the hope that President Reagan, who opposes the plant-closing proposal, might accept it as the price of obtaining trade-reform legislation. The House

trade bill did not contain the labor amendment, however, and a committee of members of both houses of Congress is now trying to resolve that and other differences.

"The unions have a very aggressive agenda, and plant closing is a cornerstone of it," says Mark A. de Bernardo, labor law manager at the U.S. Chamber of Commerce. "Organized labor recognizes that the chances of enacting mandated notification requirements are greatly enhanced by holding hostage a bill which is considered 'must' legislation—such as the trade bill."

**M**eanwhile, business people like Frank Mason argue that the measure ignores the realities of today's employment scene: "Businesses have to work harder to attract and keep productive employees. If a business must lay off valued workers, that company wants to make sure that the same workers would be willing to return when times get better. If I don't look out for the employees, I can't expect the employees to look out for the company." ■



# Where I Stand

*Results of this monthly poll are forwarded to top government officials in the White House and Congress.*

## 1. Tap Oil, Gas Beneath Arctic Wildlife Refuge?

The Department of Interior has recommended leasing 1.5 million acres of the Arctic National Wildlife Refuge (ANWR), in northeastern Alaska, to oil and gas developers. Currently, not even energy exploration is allowed there. Opponents charge that even careful, regu-

lated development would destroy wildlife such as caribou, wolves and arctic foxes. Proponents assert that unobtrusively tapping the refuge's vast energy production potential, at a time when oil imports are rising and domestic production is declining, is in the nation's economic and national-security interests. Should ANWR be opened to oil and gas development?

## 2. Require Balanced Budget?

Fiscal conservatives view the concurrence of deficit-reduction efforts and Constitution bicentennial festivities as an appropriate time for a balanced budget amendment. They argue that Congress has become incapable of limiting spending and taxation under statutory

requirements, including the Gramm-Rudman-Hollings balanced-budget law. Opponents claim that a balanced-budget amendment would enhance pressure to move spending programs off budget, encourage tax increases and dangerously restrict Congress' and the President's abilities to respond to changed economic conditions. Should the Constitution require the budget to be balanced?

## 3. Impose Tax On Imported Oil?

Sen. Lloyd Bentsen (D-Tex.), chairman of the revenue-raising Senate Finance Committee, and others in Congress advocate imposing an excise tax on imported crude oil to narrow the budget and trade deficits and discourage reliance on foreign oil sources. Proponents

estimate that a \$5-a-barrel levy would raise \$22.8 billion during fiscal years 1988-90 and spur domestic oil production. Opponents warn that an oil-import fee would increase costs to consumers of almost all finished goods and services and make U.S. businesses less competitive with foreign competitors, whose oil prices would be lower. Should an oil-import tax be enacted?

### Verdicts On August Poll

*Here is how readers responded to the questions in the August issue.*

	Yes	No	Undecided
Should Congress enact a tax on capital gains at death?	12%	85%	3%
Should Congress strictly limit nonprofits' tax exemptions?	75%	18%	7%
Should federal and state governments implement mandatory AIDS testing?	77%	15%	8%



*Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.*

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# Personal Management

## It's Your Money

By Ray Brady

### No 1929 In Sight

From his office high over San Francisco's California Street, stock analyst John Maack looks over the sparkling waters of San Francisco Bay. But even that dramatic view doesn't block out some of the same questions that are bothering many investors these days. Questions like: How much longer can this bull market keep going up? What stocks do you buy now?

And, finally, the question that is being asked both in the stock market and in the media: Are we all heading toward another 1929—a stock market that soars and then goes into a crash of colossal proportions?

As I sat in Maack's office, I could not help but think that there are similarities between now and the late 1920s: a stock market that keeps roaring ahead, despite an economy that is not all that strong and protectionist talk in Congress.

John Maack has pretty good credentials for discussing such matters. He heads the stock-selection committee of Warburg Securities, an investment firm with offices around the globe. Maack also analyzes forest products and airline stocks for Warburg.

In recent months he has recommended Boise Cascade, which went from \$60 a share to around \$72; and Bowater, which moved from less than \$29 a share to \$37.

But what about that stock-market crash?

"In February of this year," says Maack, "I thought there was a pretty good chance that we were heading for a crash. In fact, I was buying gold and Deutschmarks. Today, though, I've got

*Financial Adviser John E. Maack of San Francisco doesn't think that what goes up—in this case the stock market—will necessarily come crashing down.*



PHOTO: GEORGE OLSON

to say that I feel a lot more encouraged than I did back then."

The reason: A lot of the apparent trends that had a 1929 look to them earlier this year have not panned out. Maack ticks them off:

- In the late 1920s, the Federal Reserve Board was worried about speculation in the stock market and started to raise interest rates. That was to cool off stock buying. But the increase in rates stifled an economy that already was weak. Right now, Maack feels, the increase in interest rates probably has run its course—so that 1929-type danger is past.

- In that earlier period, Congress, in an effort to strengthen the government's books, raised tax rates. That also dealt a blow to the economy. But now, says Maack, who sounds pretty confident about it, "Ronald Reagan says he will veto any tax increase."

- Congress started talking in 1928 about passing the Smoot-Hawley Act to restrict foreign trade, but didn't actually get around to enacting it until 1930. The law kept foreign goods from coming into this country, international

trade around the world went into a tailspin and the depression became deeper. (Other nations, it should be noted, were busy passing Smoot-Hawley Acts of their own.)

Though there are now new protectionist moves in Congress, the American industries that would benefit from such protection are showing signs of getting better. So Maack does not feel that a really damaging trade bill will be passed.

Not that everything is going great. The San Francisco analyst feels there are still a lot of problems around. He agrees, for example, with the many analysts who argue that the American dollar has not yet hit its low and could well take another dive in the future.

So I said to him: "Despite all this, is this still the time to buy stocks, even with the Dow this high?"

"It's not the price of the stocks that you should look at now," he replies, "it's the value behind them."

Which sounds like the kind of talk you hear from financial people just as the stock market is about to top out. Still, Maack argues, a lot of American industry has been going through a major change that has made stocks more valuable.

The change is simply this: any number of industries have cut costs, either by cutting the work force or by selling off low-earning assets. They are now finding that they also can raise prices. From that comes a classic stock-market equation: lower costs plus higher prices mean vastly higher profits—and profits make stock prices go up.

"When you're getting surprises in corporate earnings," says Maack, "it's often a pleasant surprise—much higher earnings."

The trend started in paper stocks, then it spread to chemicals. Now, it has moved to minerals and mining. Maack feels the airlines could be the next to feel the high-flying effects of the cost-price equation.

And down the road? "You can't make a flat prediction," he says, "but keep an eye on the insurance stocks. Sometime in the future—say, two years or more—you could see them move."

So, at least for now, Maack doesn't see any new 1929 coming along. ■



Ray Brady is the business correspondent for CBS News.



*Even though economic indicators in 1987 have been frighteningly reminiscent of pre-Depression days and the newly reformed tax code means even more complex filing ahead, keep smiling. It may mean the difference between life and death.*

## To Your Health

By Deepak Chopra, M.D.

### Are Your Thoughts Killing You?

The patient waiting for me was an extremely angry man. A 42-year-old business executive, he had called me complaining of mild intermittent chest pains, which he had been having for about six months. His description sounded like angina pectoris, sharp pain that results from decreased blood flow to the heart.

He said the pain came on when he felt depressed or anxious, or when he was trying to make a hurried deadline. But he did not notice it during exercise. This suggested to me that his pain resulted from spasms of the coronary vessels, the arteries feeding blood to the heart, as opposed to a fixed narrowing that comes with hardening of the arteries.

When I asked him to come to my office for an examination, the man grew irate. He said he was indispensable at work and abruptly hung up the phone. When the attacks worsened, he reluctantly agreed to come in.

Because he had to sit in the waiting room for 15 minutes, he grew hostile and abusive to my receptionist. By the time I saw him face-to-face, he was getting out of control. He raved about the gross inconsideration of all doctors, and I noticed with alarm the color draining from his face.

Then he began to froth around the mouth, and the next minute he dropped to the floor, showing all the signs of a massive heart attack.

Despite strenuous measures to revive him, he did not recover. An autopsy confirmed that the cause of death had been a heart attack. But it also showed, as I suspected, that the coronary arteries were clean.

This patient had been killed in a matter of two minutes by his own thoughts.

*Deepak Chopra is a Boston endocrinologist and author of Creating Health: Beyond Prevention, Toward Perfection (Houghton Mifflin).*

*This happy couple's chances for good health improve because they have positive mental outlooks. Conversely, a malcontent may doom himself to illness—even untimely death.*



PHOTO: M. STAVE—IMAGE BANK

Such a dramatic episode is very rare, but the mechanism behind it is not. The body responds to thought patterns all the time. The basic brain chemicals involved are quite subtle, but they exert powerful and swift influences. Anyone who has felt his body respond to a surge of adrenaline has some idea of this power.

Even though it is a complex subject, we can make one simple statement about the mind-body connection: Our thoughts tend to keep us healthy or make us ill.

Negative, hostile thoughts raise the blood pressure, activate "stress hormones" and weaken the immune system, making it easier for us to fall sick. Because this is well known, many people are trying to manage stress in order to avoid its bad effects.

What is less known is how thoughts can work to promote health. Although it is obvious that healthy people tend to be happier, the reverse is a new medical finding: Happy people tend to be healthier.

Dr. Hans Selye, who is credited as the first researcher to apply the term

"stress" to the human body, recognized good stress (which he called *eustress*) as well as bad stress (which he called *distress*). Your thoughts, emotions and habits can lay down pathways for either kind.

Practice and repetition are the keys. If you want to promote good stress, which activates the brain chemistry that gives you a sense of well-being and promotes health, then make time to do so every day.

First, do things that make you happy. Whether it's growing roses or shooting baskets at the gym, make it a habit and devote your whole attention to it.

In business, this means adopting practices that lead to satisfaction in your work. One big difference between Type A personalities—the impatient, hard-driving people who are most prone to heart attacks—and the less intense Type Bs is that the latter consciously experience inner satisfaction on the job.

Ask yourself this: Did I feel really happy a few times at work today? Did I appreciate and praise someone else? If the emotions of happiness, hope, generosity and friendliness have as high a priority as meeting deadlines and achieving material success, then the satisfaction you feel will translate into better health.

Adjust your environment so that you don't overload your nervous system. Sheer fatigue is one of the biggest causes of stressful brain functioning. When you get up in the morning, don't automatically switch on the radio or television. At work, put your focus on one project at a time, excluding needless distractions (for example, loud background music). Leave some quiet time for yourself alone each day.

Most important, find ways to dissipate the bad stress that may be affecting you. For that, I recommend Transcendental Meditation (TM) to many of my patients.

Learning more about the role of the mind in creating health poses a tremendous challenge to modern medical research. Meanwhile, there is no reason why we can't help create our own well-being, adopting positive attitudes and practicing the mental techniques that we already know about to activate health-promoting brain chemistry. ■



## For Your Tax File

By Gerald W. Padwe, C.P.A.

### Deduction Canceled For Lack Of Interest

Yet another complexity added by the 1986 tax-reform act's "simplification" is its treatment of individual-interest expense.

Before 1987, the rules were relatively straightforward. If interest was paid to purchase tax-exempt bonds, it was not deductible. If it was paid to purchase or carry other investments, it was shown on Form 4952 and was deductible up to the amount of net investment income plus \$10,000. Other interest was deductible on Schedule A or Schedule C.

Starting this year, deductibility gets tougher. Municipal-bond-interest and business-interest rules stay the same. The \$10,000 shelter provided for investment-interest deductions will be phased out over five years, and the definitions of both investment interest and net investment income also are changed.

A new interest "basket" is created for "passive activities" (yes, that really is the term), including limited-partnership units and a good deal of real-estate rental. Net expenses (including interest) from these activities will be deductible only against income from other passive activities. Interest on loans secured by a first or second home is deductible.

And, finally, other personal interest becomes nondeductible over a five-year period. (Only 65 percent will be allowed in 1987.)

With tax deductibility or nondeductibility varying according to the type of interest expense, the characterization of interest payments has become critical. Recently, the Internal Revenue Service issued a set of proposed and temporary regulations to guide individual taxpayers as they structure financial transactions in 1987.

Two general approaches to characterizing interest were available to the IRS and the Treasury Department: tracing

the proceeds of the loans or apportioning interest expense based on the taxpayer's overall financial posture. The proposed regulations take the first approach. The regulations aren't final yet, so both methods are worth a look.

#### Apportioning interest expense

The apportionment approach recognizes that a specific loan decision today may really be only part of an overall financial strategy with longer-term effects. So the purpose for which today's loan is taken out is less important than overall financial posture.

*Starting this year, deductibility gets tougher. The shelter provided for investment-interest deductions will be phased out over five years, and the definitions of both investment interest and net investment income also are changed.*

Assume your assets include a home valued at \$400,000; stock portfolio of \$200,000; municipal bonds of \$50,000; passive activities of \$150,000; and personal assets of \$200,000 for a total of \$1 million.

One approach to apportionment would conclude that mortgage interest is treated separately, but any other amount borrowed is to assist the taxpayer's total financial picture. Therefore, regardless of the purpose for the immediate loan (say, to pay a college tuition bill), interest would be allocated pro rata based on the relative values of the non-home assets—\$600,000 in this example.

Thus, 50/600 would be apportioned to the municipal-bond portfolio, and therefore nondeductible. Another 150/600, or ¼, would be treated as a passive-activity expense, and so on.

There are drawbacks to this approach. It apparently would require all borrowing individuals to have accurate valuations of assets performed periodically—an expensive and certainly controversial requirement.

An alternative to using fair-market

value would be to apportion based upon the relative tax costs of all assets held by a borrowing taxpayer. If that were the rule, though, how successful would you be in providing an examining agent with documentary evidence as to the tax cost of your household furniture and effects? How much work would you have to do to determine the present tax cost of limited partnerships you have been in for several years?

#### Tracing the proceeds

Because of the difficulties inherent in an apportionment approach, the regulations call instead for tracing interest costs based on use of the loan proceeds. Though such a rule brings its own set of problems, it should be substantially more practical than one based on apportionment.

It also requires you to have a thorough understanding of how the IRS will view loan transactions reported on your return.

Suppose, for example, you were to borrow \$25,000 from your family business, and interest payments are made directly to your closely held corporation (of which you are an officer, and where you spend your full working day). With the \$25,000, you buy a new car for non-business use. Although the interest payments are to your business, the proceeds were for personal use and the interest is personal interest. If, instead, the \$25,000 was used for increasing your stock portfolio, the interest would be investment interest. If \$15,000 were spent for the car and \$10,000 for stocks, 60 percent of the interest would be personal and 40 percent investment.

Often, however, a taxpayer will borrow funds, deposit them in his checking account and commingle them with whatever other money is in the account. In this common situation, the rules are somewhat mechanical. Any payment from that account within 15 days of depositing the loan proceeds may be treated as coming from those proceeds. Any expenditures after the expiration of 15 days must be treated as coming from the debt proceeds, up to the amount of the loan.

Many other rules deal with segregated accounts, reallocation of debt, and transition rules affecting business or rental loans. The importance of these new regulations to taxpayers with loans outstanding requires thorough planning by you and your accountant to make sure you won't lose your tax advantage. ■



Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.



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# American Handstand

By Michael Barrier

*Running show business like a real business isn't easy. Dick Clark just makes it look that way.*

Dick Clark is minding the store.

He is spending a summer Saturday morning at an ABC television studio that is tucked inconspicuously into a modest residential neighborhood east of downtown Hollywood. As on many other Saturdays, he is taping five segments of "American Bandstand." They will be aired, one each week, later in the summer. This is a special taping, though: After 30 years, and more than 5,000 installments, "Bandstand" is leaving ABC. These are the last five shows for the network. Future shows will be syndicated.

There will be a party this afternoon, after the taping of the last show. But for now, dozens of teenagers dance to records of rock music, played at ear-splitting levels, as four cameras (one on a boom) swivel around the dance floor. The show's basic ingredients—the dancing kids, the music and Dick Clark—have remained the same for three decades. "The 'Bandstand' format was simple, that's why it worked," Clark wrote in his 1976 autobiography, *Rock, Roll & Remember* (Crowell). "One network executive said that if anyone had come to him with the idea, he'd have fired the man for being an idiot."

When the camera is on him, Clark is the Dick Clark everyone knows: "America's oldest living teenager," the genial, youthful (at 57) MC who never lets a show run away from him. When the tape is not running, he is still that, but he is something else, too: the boss, the man who gives the orders.

Clark tells the teenagers when to dance—"Please remember to dance when the music starts"—and he tells them where to dance—"Scatter around the floor a little more than you are now, please." Through it all, he is intensely serious. He enjoys his work—"Bandstand," he said earlier in the week, is "the fun part; that's how you spend your Saturdays"—but, even after 30 years, he doesn't let up. He seems to be all business.

And, in fact, he is.

Clark is most visible as the ringmaster for TV shows like "Bandstand" and "\$25,000 Pyramid," but those are really sidelines to his principal job: chairman and chief executive officer of Dick

*From an office filled with rock 'n' roll memorabilia and antiques of other kinds, Dick Clark oversees a company that has produced thousands of hours of TV programs.*



PHOTO: ELI REED—MAGNUM

Clark Productions, a publicly held company with fiscal 1986 revenues of more than \$32 million and profits of \$3.75 million. DCP, which has more than 100 employees, is based in a three-story Tudor-style building in Burbank, Calif., hard by the studios of Warner Bros., Columbia Pictures and NBC.

"You've got to realize," Clark says, "that this whole thing of my being a 'performer' happened by accident."

By the time Richard W. Clark enrolled at Syracuse University in 1947, he says, "I knew I wanted to be in the radio business." He has written of his vivid memories of the night his parents took him into Manhattan, from their home in suburban Mount Vernon, N.Y., to see a live radio broadcast: "I looked at the stars and the actors around them and thought, 'Wouldn't this be a great way to make a living?' I saw the guy



## LESSONS OF LEADERSHIP

## American Handstand

*"Bandstand," '56: The 26-year-old Clark becomes host of a local TV show for teenagers and takes it onto the ABC network a year later.*

with the script in his hand waving to the audience to applaud. I saw the signals they used—stretch and cut arm motions. I peered through the double-glass partition into the control room where the engineers adjusted banks of dials. . . . I was hooked."

But, Clark says now, he wasn't thinking about going on the air himself: "When I saw the people with scripts in their hands, I didn't think of me doing that; I thought of selling the time or assisting in the production. I wanted to be in business."

**A**t Syracuse, though, the business path wasn't open at the campus radio station, because he lacked experience. But, he recalls, "They said, 'Can you announce?' I said, 'Of course.' So what I did was imitate a radio announcer. In those days, you cupped your hand over your ear, and you lowered your voice, and you tried to sound authoritative and resonant. One thing led to another, but I never fully intended to make that a lifetime career."

After graduation, Clark worked at radio and TV stations in upstate New York and in Philadelphia, where he was a disc jockey at radio station WFIL. "Bandstand" (not yet "American") had started as a local show on WFIL-TV in 1952; Clark became its host in 1956.

Rock 'n' roll's popularity was cresting in the mid-'50s, and Clark and his show would soon become closely identified with the music—but, at first, Clark didn't know much about it. On his first day as host, he has written, "I don't think I knew more than one or two tunes on the music list. . . . I listened to the kids and let them tell me what they liked. I knew that if I could tune into them and keep myself on the show, I could make a great deal of money."

Clark succeeded so well in tuning into the kids that his show went onto ABC in August, 1957, five afternoons a week, and soon became wildly popular. Despite "Bandstand's" network success, Clark and his crew continued to work out of WFIL, in what he has described as "cubbyhole offices," piled high with records and debris. Many people in Clark's position would have demanded luxurious new accommodations, but Clark was interested in something other than the trappings of stardom. He preferred to own the show.

He and another WFIL employee "were totally responsible for producing the program," Clark recalls, "and I said [to Triangle Publications, which owned



WFIL], 'In order to do this, we've got to have a corporate set-up. Assign us the rights to it, for which we'll pay you a royalty as long as we're doing the thing.' They had said, 'Go do that,' and we did, but eventually we had to have some formal authorization to do it. It sort of evolved."

Clark had already set up his first corporation by then, to absorb the cash he collected at sock hops in the Philadelphia area. Even after "Bandstand" was being seen nationwide, he spent many evenings carting records and loudspeakers to roller rinks and ballrooms, testing new records on crowds of teenagers—and collecting 75 cents a head at the door. He estimates that he netted \$50,000 a year from those hops.

Like many another entrepreneur, Clark has always had a boundless appetite for work. He got into the music business itself—he became owner or part-owner of record companies, music-publishing companies, a record distributor and a record-pressing plant. By 1959, he was earning more than \$500,000 a year.

But when the payola scandal broke in the late '50s, and some disc jockeys admitted taking payoffs to play certain records, congressional investigators accused Clark of a conflict of interest. No one ever proved that he had favored his own companies' records on "Bandstand," but at ABC's insistence, he sold off his holdings at a loss he puts in the millions.

Cut loose from the music business, Clark plunged more deeply into television. In 1964, he moved to Los Angeles,

opened an office on Sunset Boulevard and began producing not just "Bandstand" but other pop-music shows for the networks, as well as low-budget movies. In those days, Clark says, "it was the moth and flame. You'd go where the light is, where the heat is. When things quieted down in television, we went into the motion-picture business. You go where you can to make a living."

**N**imble and shrewd though he was, Clark in the early '70s found himself a victim of a familiar Hollywood disease: typecasting. The networks wouldn't take him seriously as a producer of anything but shows that resembled "Bandstand." To fight back, Clark began calling attention to the wealth he had accumulated. "I was totally frustrated," he says. "Here I'd spent all my life in the radio and television business, and I knew about as much as anybody did. But I couldn't get over the typecasting. It's not terrific, but if you tell people you're doing well, they'll listen to you."

In the last 15 years or so, Dick Clark Productions has grown steadily and sometimes dramatically in revenues and net income (both tripled between 1982 and 1986), as it has grown in the esteem of networks and syndicators. They find the company a highly reliable, highly efficient provider of programs ranging from specials like the annual "American Music Awards" to made-for-TV movies like *Elvis* and *Copacabana* to the children's show "Puttin' On the Kids." Dick Clark Productions is debt-free, and it most often develops new shows with money provided by other companies. "I like to think that we're very conservative in a less-than-conservative business," Clark says.

By that he means that he makes sure he doesn't spend more on a project than he is going to be paid for it by a network or a syndicator: "It doesn't take a genius to figure that out." He doesn't count on secondary sales—videocassettes, say, or foreign showings—to boost a show into the black.

Simple as it sounds, adhering to such a pay-as-you-go philosophy may be harder in Hollywood than anywhere else. Clark explains: "The problem you get into in our business is that we are all basically excitable dreamers; and you must remain enthusiastic, or you fail. But in your enthusiasm, you've got to be very careful not to sell yourself a bill of goods, where you say, 'Let's take



"Bandstand," '87: After 30 years on network TV, Clark's show—the cornerstone of his highly successful production company—goes into first-run syndication.



PHOTO: HERMAN KORDJAN—BLACK STAR

all our little bankroll and put it into the next *Gone With the Wind*."

DCP will sometimes deliberately run a deficit on a special project, but only after calculating the potential benefits very carefully. Francis La Maina, DCP's president and Clark's close associate for more than 20 years, cites the TV movie *Elvis* as an example: "We planned a budget deficit on that show, and the results proved to be quite lucrative to the company. It generated record revenues for a movie for television, all over the world."

**A**s DCP has grown, Clark has reined in the entrepreneur's urge to scrutinize the details. Rather than be a back-seat driver in the control booth, he tries to offer help to his producers mostly in the "pre-production" stage, when a show is being planned.

Richard A. "Rac" Clark, 30, who works for his father as the producer of two syndicated shows, "Puttin' On the Hits" and "Puttin' On the Kids," cites an example of that kind of help. When "Hits"—a show on which amateurs "lip-synce," or mime, pop songs—was being planned, he says, "we were tinkering with the idea of letting professionals on—Screen Actors Guild members, union members. When we looked at what it potentially could have cost, it

was something we could have put into the budget and billed our distribution company, MCA, for. But my father said, 'Why do that, when there are so many amateurs out there who would probably love to do that? Why not provide a cheaper budget to MCA, which makes the show more attractive to them and a greater potential money-maker for all parties involved?'"

For all his great success at pleasing networks, audiences and advertisers, Dick Clark's name is in some ways written in sand. He has produced perhaps 7,000 hours of television, but the value of most of those hours dropped sharply as soon as they were broadcast. The Clark library includes none of the TV classics—shows like "I Love Lucy" or "Star Trek"—that run forever in syndication and bring a constant flow of revenue to their producers.

DCP's failure to produce more shows with such "back-end" potential is "not by design," Clark says ruefully. "Some of our stuff has shelf life, but not enough of it. We don't have 150 episodes of a sitcom; that's what we would like to have. That's why we went public, to get enough capital together to hire the people to make those things happen on a more regular basis."

The public offering last January, of shares representing 15 percent ownership, yielded less than \$8 million. That

was not as much as Clark hoped for, but it is probably enough for his frugal company to work with. La Maina, who negotiates DCP's contracts with creative talent, doesn't feel a "compulsion to spend this money for the sake of spending it. We want to invest it prudently, in the right people," writers in particular. But, he adds, "it's very difficult to get the right people without overpaying. I'd rather not throw the money away."

**L**a Maina's words echo Clark's own thoughts. After almost a quarter-century in Hollywood, the land of conspicuous consumption, Dick Clark remains a no-nonsense businessman, appalled when he sees waste:

"I walked into a very prosperous company the other day—I'd never been in their offices, a multi-story building with little stalls. It is a single-faceted business, it takes a handful of people to run it, and they're making tons of money. I have never in my life seen so many human beings doing nothing. Layer upon layer of people, doing nothing. When it hits the fan, and the money starts diminishing, they're going to look around and say, 'What is this army doing here?'"

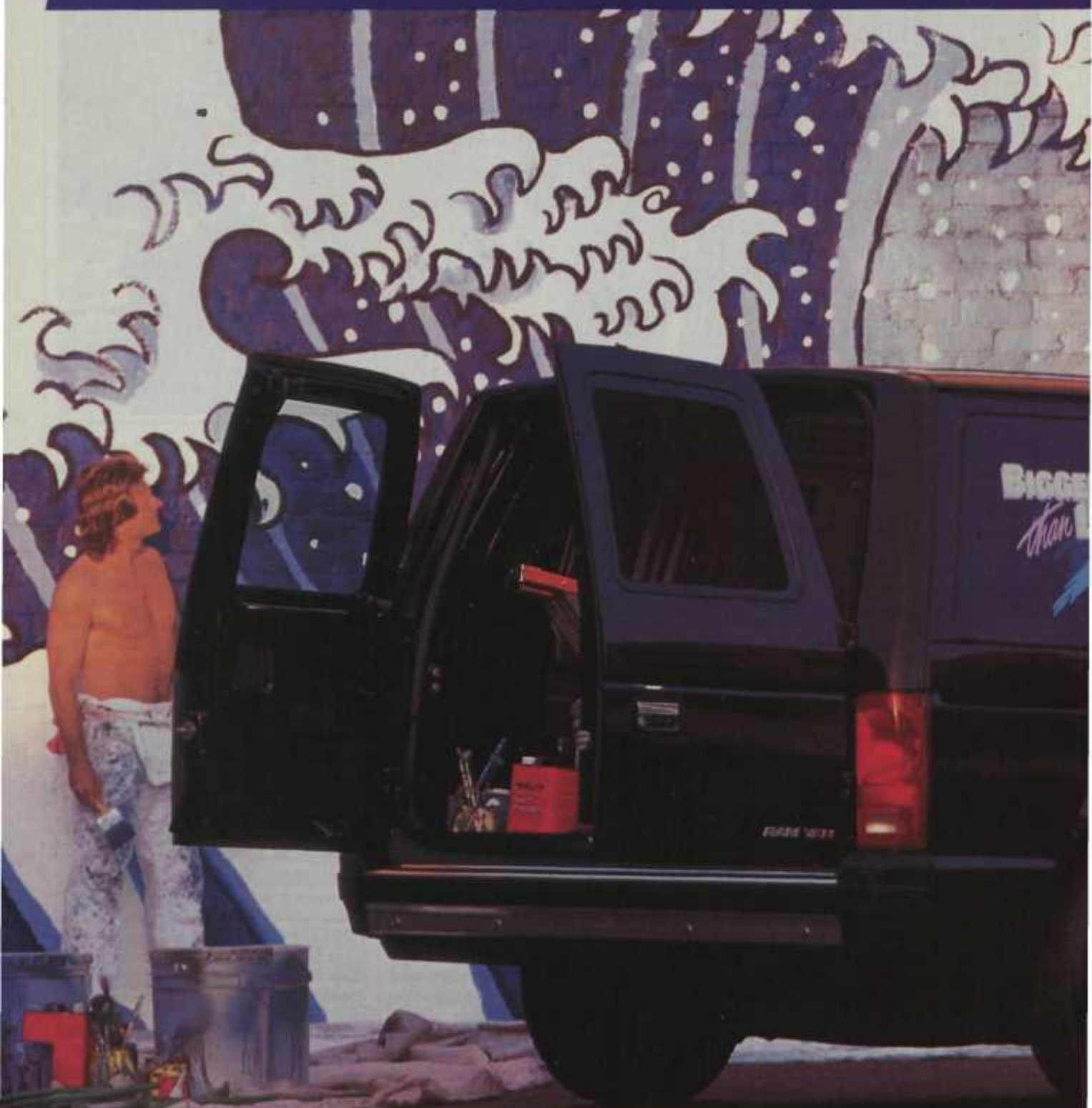
It is most unlikely that anyone will ever say anything similar about Dick Clark's company. ■



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